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The Wisdom in Acculturating a Project Management Office

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Introduction

Middle Market Methods (“M3”) has long elevated project management among the most underappreciated skillsets in business. Project management rigor is ideal for complex projects with numerous tasks and dependencies, the latter of which often catalyzes resource allocation conflicts. Private equity firms and their portfolio companies chronically encounter such conflict with initial investments, add-ons, and exits. Interestingly, those same investments, add-ons, and exits are not necessarily viewed through the project management prism.

Increasingly, M3 engages business models whose unique value proposition to prospects and customers is essentially project management. The deliverables for these businesses are providing (i) turnkey solutions and/or (ii) continuous services. Their customers require project management methodology as a hedge on execution risk. However, the descriptors that prospects and customers utilize in communicating their expectations may not literally include “project management.”

Despite the necessity of creating value for customers through project management, these same businesses—paradoxically—often do not “eat their own cooking.” That is to say, the portfolio companies do not elect to run their businesses by the same

Project management is an essential business skillset.

mechanisms inside their firewall as they must outside of their firewall. While vendors may embrace a modicum of project management discipline for a particular job, their organizations may not see the benefits for standardizing their methodology for robust scalability. The rewards for crossing that threshold may be rewarding. Indeed, Gartner Group imparts that businesses with institutionalized project management consistently experience *half* the incidents of their peers on delays and cost overruns.

What types of businesses fit this depiction? Construction, manufacturing (both job shop and long run), services, consulting, healthcare, accounting, landscaping, law, advisory services, event planning, and private equity—to name a few. What are the characteristics of such models? The indicators are numerous, and only one might be enough to tip the scales:

- high execution risk,
- complexity,
- coordinated resource allocation relative to a timeline,
- task dependencies,
- multiple internal and external stakeholders (over whom influence may be the only behavioral leverage),
- heavy regulation,
- long execution cycles, and
- numerous execution options.

The Cost of Quality

Scrutinizing the impact of potential errors is a worthy endeavor. Engineers rely on a tool to evaluate the risk of errors. Non-engineers stand to benefit from adopting the tool. The failure modes and effects analysis (“FMEA”) tool communicates the severity of failure with three variables—each on a scale of ten. The assessed values are multiplied to yield a risk assessment score between 1 and 1000. The higher the number, the higher the risk. One criterion is severity: a 10 inflicts severe personal injury or death. Another criterion is likelihood of detection: a 10 means detection is elusive. The final criterion is frequency: a 10 happens frequently.

*The cost of quality
impacts brand equity.*

Does FMEA seem esoteric? We need only look at NASA for the answer: the Apollo 1 test accident incinerated three astronauts, Apollo 13 sustained an explosion en route to the moon that imperiled three crew members, the Challenger space shuttle explosion shortly after launch claimed its crew, and the Columbia space shuttle reentry disintegration lost its crew. These incidents involved 20 crewmembers; 17 died.

Let’s drill down on the Challenger explosion. The FMEA severity score was obviously a 10. The detection score was also high—probably 10, i.e., elusive. According to NASA, each shuttle had over 2.5 million moving parts. The frequency score for the cause of the explosion—the failure of an O-ring seal—is deceptive. It was also a 10. The O-ring was likely to fail in every launch in freezing weather. The catch was that NASA had never launched a shuttle in freezing weather. Much forensic press substantiated NASA’s pressure to meet its launch schedule; thus, distractions logically diluted focus—if not

judgment. Any way you slice it, the O-ring failure score pressed the limit on the FMEA, i.e., 1000.

Society responds to catastrophe in terms of error-proofing, typically in terms of laws and regulations. Examples include the alphabet soup of government entities: Occupational Safety and Health Administration (“OSHA”), the Federal Aviation Administration (“FAA”), the Nuclear Regulatory Commission (“NRC”), the Environmental Protection Agency (“EPA”), the Federal Emergency Management Agency (“FEMA”), and the Securities and Exchange Administration (“SEC”).

Sometimes bestselling authors contribute to movements that influence laws and regulations. For example, Upton Sinclair’s *The Jungle* took issue with conditions in Chicago meat packing plants circa 1904. The book contributed to the passage of the Pure Food and Drugs Act, a precursor to the Food and Drug Administration (“FDA”). In the private sector, the Project Management Office model, or PMO, has at least partially evolved in reaction these phenomena.

Project Management vs. PMO

Project management and a PMO are related, but not identical. The Project Management Institute explains that a project is a unique deliverable which is scoped to be completed by a deadline. Subject matter expertise, tools, and techniques contribute to the success of the project.

CIO.com imparts that a PMO “maintains and ensures standards for project management across [the] organization, [and are] the keepers of best practices, project status, and direction” Judith Wren of Sibridge Ltd. rationalizes the PMO for acculturating organizational governance for what will and will not be done. Whereas the Project Management Institute explains a project as unique, the PMO standardizes stewardship for repetitive project types aimed at different targets.

Pharmaceutical companies are among those proselytized in PMO discipline. This

PMO is a governance mechanism for reliably executing scores of projects simultaneously as a core competency.

phenomenon may unfairly stigmatize PMOs as singularly beneficial to behemoths. On the contrary, however, many industry verticals prevalent in the middle market may benefit from proactively embracing PMO mechanisms to accomplish differentiation ahead of mandates. Moreover,

functional departments within a business model may be prime targets for PMO benefits.

Consider the demand on an information technology department as a functional example. What is the crux of the PMO argument? Cost avoidance tops the list, which translates into margin improvement. Paul Engle of Grant Thornton’s Management

Advisory Services reports that nine out of ten IT projects exceed their budgets and deadlines. The cost argument may be realized in both cash and opportunity cost. Cash is easier to comprehend, e.g., less consulting expense. Opportunity cost could be estimated in terms of next best alternative, i.e., the business could be creating additional value with resources not consumed by delayed deliverable implementation. An old Six Sigma saw is that it is cheaper to “get it right the first time.”

Consider this flash from the past. During GE Capital’s heyday, its Commercial Finance unit branded a creative solution called “Expectations Pact” to improve customer satisfaction for both debt and equity transactions. Complex transactions required choreography among prospects/customers, lenders, lawyers, and diligence vendors. Basically, the Expectations Pact communicated who had to do what by when to meet a projected transaction close date. The Expectations Pact was a form of project management. As Shakespeare opined in *Romeo and Juliet*, “A rose by any other name would smell as sweet.” The fact that GE Capital’s Commercial Finance unit institutionalized the tool as a non-negotiable was a form of PMO discipline. We will return to PMO architecture later in this article.

A Six Sigma posterchild, GE Capital walked its talk about defect free execution. This, of course, is aspirational. However, isolating and correcting root causes for execution errors makes continuous process improvement possible. GE Capital used Expectations Pact as a differentiator in an otherwise commoditized market.

Key PMO Criteria

How does a business decide whether it meets the criteria threshold for PMO benefit? (Note: This is a holistic comment—not an IT functional comment.) These characteristics come to mind:

- The value chain is long-cycled in nature and may be described in stages.
- Voluminous data are required in each stage of value creation.
- Those data straddle similarly numerous tasks.
- Many stakeholders are involved in each stage.
- The roles of stakeholders are complex—and perhaps ambiguous.
 - RACIX (an acronym) is a practical tool for navigating toward clarity.
 - According to Jay R. Galbraith:
 - R stands for “responsible,” the highest level of ownership. An R usually delegates actual work, but in some instances does not.
 - A stands for “accountable,” and denotes the person who actually does the work.
 - C stands for “consulted,” representing an internal or external subject matter resource for guidance in choosing the best decision among options.

- I stands for “informed,” a person who is not involved in the decision, but is affected by the decision and must receive communication.
- X represents a non-stakeholder whose involvement merely complicates execution. This is most common with change whereby a former stakeholder is disintermediated.
- *Note: Engineers commonly use RACIX, but flip the definitions of R and A. Logically, this should change the acronym to ARCIX, but unfortunately such is not the case.*
- Eschewing data and/or tasks eventually results in an expensive error.
 - “Expensive” is liberally interpreted from embarrassment to financial ruin.

A PMO Example

Consider a plumbing subcontractor to the construction industry:

- The subcontractor qualifies (for “fit”) developers, architects, and general contractors within its target market.
- The subcontractor solicits opportunities among those qualified prospects.
- A particular prospect issues a request for information (“RFI”) to several subcontractors.
- A subset of those subcontractors receives a request for quote (“RFQ”) by the prospect.
- The quote typically includes things tantamount to a statement of work (“SoW), project plan, and billing schedule.
- The winning subcontractor quote is memorialized in a contract.
- The subcontractor provides the services and materials according to the project plan—which commonly includes coordination among other subcontractors at the job site.

This simple example includes seven steps punctuated by ample opportunities to make an egregious error that impacts timeliness, quality, and/or cost. Any process improvement practitioner will corroborate that a material portion of observable errors in the value chain were likely committed several steps ahead of their impact’s detection. [This fact hits close to home (pun intended) in my personal experience. The plumbing subcontractor for our first home connected a toilet to the hot water line. The correction involved plumbing, sheetrock, painting, and cleaning vendors.]

Middle Market Practicality

PMO rigor provides the mechanism for risk mitigation and/or avoidance. The PMO scope includes process, tools, and ownership. John Reiling of UK-based Project Smart provides cogent guidance on three basic PMO architectural models—all of which deal with the same issues, but in different configurations. The “right” model is rationalized by execution risk and consequences. M3 complements Reiling’s insights for middle market consumption by defining bookends with a compromise suggestion between those bookends.

The first PMO model owns all deliverables, i.e., control and execution. Resources are assigned and managed by the PMO per project requirements. In short, this model constitutes operations for the company. Given the unencumbered entrepreneurial spirit in the lower middle market, this is an unlikely scenario.

PMO architecture abides by consistent principles, but there are numerous design options.

The second model is advisory in nature. The PMO approach is the curator for methods and tools but is only engaged for subject matter expertise at the discretion of autonomous project managers. This, too, is unlikely to work. Institutionalized consistency is

difficult to reengineer absent leadership directives. Thus, productivity opportunities from specialization are forfeited.

The third model is more palatable to the middle market and resides between the bookends. This PMO model establishes the policies, processes, and tools for autonomous teams to follow. The PMO audits project teams to assure compliance. For this model to work effectively, leadership must make compliance a non-negotiable rule of engagement. A strong training regimen is required, but the results should be gratifying.

These are not presented as the only three options. Rather, they frame a rationale for reconciling necessity with practicality.

Summary

The PMO does more than mitigate risk. Properly structured and administered, the PMO may brand reliable execution to customers. Finally, the prudently tailored PMO model provides on-the-job training and development for professionals curious about career-pathing. The PMO affords dynamic performance feedback. Considering the potent millennial demographic in the labor market, a PMO may brand the company as an employer of choice for developing and honing skillsets.

PMOs do not increase operating cost. On the contrary, they reduce operating cost. Moreover, they contribute handsomely to profitability through their productivity. Consequently, an effective PMO provides a favorable internal rate of return to the companies which wisely embrace their potential.

Middle Market Methods[™] offers a value-creation toolbox of growth, productivity, and cultural solutions to portfolio companies of private equity firms. The premise is that best practice adoption correlates with a smoother investment hold period, resulting in higher exit multiples. Additionally, deal team time is liberated from operational surprises to invest in new transactions.