
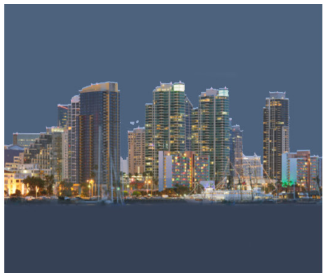

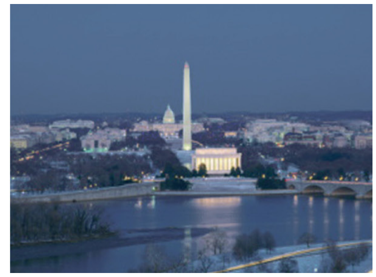

THE BROAD DIMENSION

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tbd consultants

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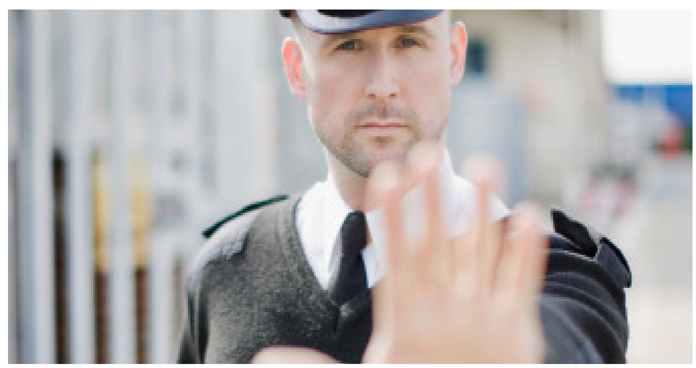
In this Edition:

What is a PMO?

The PMO, normally referred to as the Project Management Office and sometimes as the Program Management Office, has its basic goal of defining the project controls, or the standards and procedures for managing projects within an organization. It is sometimes referred to disparagingly as the Project Management Overhead, but it should lead to consistency and efficiency in project implementation.

PMOs come in almost as many types and flavors as there are companies utilizing them, but there are three basic levels at which they can operate.

Firstly, and most basic and essential to their role, is that of cataloger or librarian of the practices, procedures, rules and metrics related to project management within the organization. Those practices and procedures are often based around best practices published by the institutes related to the industry the organization is in, and may also be governed by legislation, such as the Sarbanes-Oxley act.



Secondly, taking the role a bit further, the PMO may be involved in training and monitoring compliance with the organization. This is where the PMO office can get a bad name, with the staff being referred to as the PM Cops. This writer has a copy of a Dilbert cartoon where one of the characters is saying “Is it just my imagination, or are all of our rules designed for the sole purpose of being huge inconveniences?” Avoiding having rules for the sake of rules, and not imposing too much structure that serves no useful purpose, can sometimes be a problem. Different people have different ideas of where to set the line. Having an established methodology within an organization can improve productivity, but sometimes flexibility is also important.

At the third level, the PMO may be actually involved in the project management work itself. Sometimes that is at the strategic management level, but it can also be at the actual project implementation level. At this point the PMO staff are the ones using the rules and regulations they have set up, so they have added incentive not to make them too onerous.

It is frequently said that the PMO is not a profit center, and that validating its cost-effectiveness within an organization can be a problem. When it is effective the projects that the organization have should show a higher level of success, which should lead to a more profitable organization. If the PMO is effective it should lead to greater accuracy in the estimation of project costs, improved accuracy in scheduling, and result in more consistent levels of satisfaction for all those involved in the projects.

The PMO staff may be in-house employees, or consultants. Especially during the initial stage, when establishing the documentation and standards, it may be useful to bring in consultants to work with the organization's project managers to set up a system that works for them. Also, for particular projects it may make good sense to the organization to bring in consultants rather than employing additional staff only to lay them off after the project is complete.

PMOs will vary in size, structure and responsibilities, and finding the right format for a particular company can often be a major project in itself. Starting out with pilot projects and getting input from project managers should help determine the appropriate type.

It has been estimated that only one in three PMOs is actually effective, so the PMO needs to be monitored as well. But those that are working tend to result in projects being more effective the more years the PMO has been in existence. It is said that it takes about three years for a PMO to show its benefits, although visible benefits can accrue before then.

Budget Management

The budget is one of the three main items pulling on your project (the other two being schedule and quality), so budget management is essential.

The initial step in budget management is establishing a realistic budget in the first place. This might be fixed by specific funds having been allocated for the project, and the goal then is to see what can be achieved for the previously established funds. Alternatively, the scope requirements may have been established, and a realistic budget will then need to be arrived at, based on those requirements. For a commercial development, there is also the need to ensure that the development will be profitable for the enterprise. Sometimes the scope requirements and specific funds have been allocated, and the goal is then to establish ways to make the two work together, or adjust one or both to attain a satisfactory balance.

The project budget would include such items as:

- Construction costs
- Planning costs and fees
- Design fees
- Construction management fees
- Allowance/contingencies for change orders
- Regulatory authorities' fees and charges
- Utility company connection fees and charges
- Loose furniture (FF&E)
- Special equipment and instrumentation
- Land costs
- Legal and administrative charges
- Relocation costs
- Other owner costs and expenses

Sometimes the above list is summarized as Hard Construction Costs (the first item on the above list) and Soft Costs (the other items on the list).

Once the design phase has begun, the design needs to be assessed at points throughout this phase to ensure that it is keeping on target, and that 'scope creep', market conditions, or other factors are not moving the design off its budgetary target. Estimating the project when large parts of the work is yet to be designed means that you need good records from previous projects so that appropriate allowances can be made. Maintaining a database of project information to call on is very useful.

Apart from providing regular estimates based on the design as it progresses, Value Engineering provides an excellent means of ensuring that the building owner's goals are being maximized within the constraints of the budget. Related to value engineering is life-cycle costing, where the initial and ongoing costs are combined to compare different options and establish what option is most cost effective over the life of the building.

Value Engineering is frequently thought of as a cost-cutting exercise, but it shouldn't be. Cost cutting may add value to the project for the owner, but sometimes adding cost may benefit him/her more, if other benefits accrue.

Value Engineering can be conducted in an informal setting, or in workshops taking up part of a day or spanning a number of days, where the proposed design is looked at, alternative ideas are collected and then evaluated as to how they meet the owner's needs in order to enhance the value of the design. This process normally starts with a presentation of the existing design and is followed by a brain-storming session where all ideas are collected, whether they are considered practical or not (because even an impractical idea might lead on to a highly worthwhile one). Finally the ideas get rated, and decisions are made on which ideas to implement in the next design phase.

Since design changes are easier and cheaper to implement at early design stages, this is when value engineering sessions are usually employed.

Once the design is complete and successful bids have been achieved budget management then needs to keep track of actual costs, forecast expenditures, change orders, claims, and other project related costs.

Sometimes costs need to be analyzed for allocation to different people. On one infrastructure project we have been associated with recently the costs for the joint trench had to be subdivided for allocation to the various utility companies running services through it. Another government project had to have the construction costs allocated to each of the agencies using the building.

Value Management would normally incorporate value engineering sessions, but takes the process further, involving continuous interaction with the design team and the building owner, to ensure that the latter's needs are being maximized.

Value Management involves looking at the building owner's needs and expectations for the proposed buildings, and seeing how those can be fully met or even enhanced in the project. In other words, it is aimed at maximizing the value of the project for the owner.

Claims settlement in construction projects involves a methodical investigation of the claim and its history to assess its validity or otherwise. The first issue to address in claims settlement is the contractual position of the parties to see if the matter that is the subject of the claim is already a responsibility of the claimant or not, and whether the other party would be responsible for recompense anyway.

With the contractual situation clear, the details of the claim itself can be evaluated if necessary.

Construction claims normally involve assessment of additional work and/or schedule delays with their associated costs, and these issues often need to be addressed as one of the initial steps in claims settlement.

Measuring the quantity of any additional or deleted work is the easy part when the claim is related to changes in scope. Assessing the appropriate values to assign to this work can be more involved, necessitating research into how and when the work was carried out. Was it carried out in sequence with similar work, did it involve remobilizing for the subcontractor involved, did the subcontractor have to work around other contractors, require overtime or double-time, or require a shutdown?

Assessing schedule effects involves checking whether the work is on the critical path or not. The fact that a contractor has additional work to do does not automatically mean that a schedule delay is involved - it may simply mean that the contractor can utilize her available staff more effectively.

Avoiding claims in the first place is far better than dealing with them, and this can be achieved by carrying out a constructability analysis of the contract documents to ensure their completeness, and by carrying out a risk analysis of the project to find where problems are most likely to arise and plan for mitigating them.

Project Managing the Economy

Geoff Canham, Editor

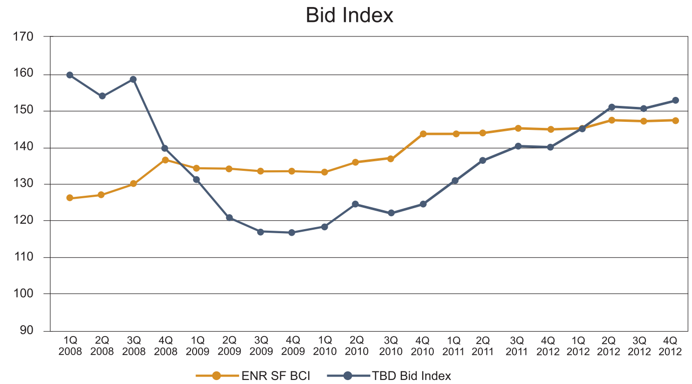
So, the election is over, and we now know who will be in charge for the next four years. But should we be saying 'in charge'? Not really. Whatever political candidates may promise, the division of powers that is a fundamental point in the US Constitution means that the only way they could really ensure delivery of those promises would be to throw out the constitution and become a dictator, as President Morsi has been attempting in Egypt.

That means that we can expect similar political wrangling that we have been getting used to, but ending in last second compromises, and the economy will struggle on regardless.

And it seems that the economy has actually been doing fairly well. Consumer confidence has been improving, as we saw with the Black Friday rush on the shops, the housing industry continues to show improvement, as we discussed in our fourth quarter 2012 newsletter, and the unemployment situation continues to improve, even if it is depressingly slowly.

If we were to do some risk management on the economy, what are the risks and opportunities that we should look at?

The so-called Fiscal Cliff is one risk that hopefully will be resolved by the time this newsletter comes out, but at the time of writing (end of November) is still worrying the market. There is supposedly some movement towards a settlement, but this writer still believes that it will go to, or beyond, the last second before an agreement is reached. And if no agreement is reached, there are influential voices who believe the effects will not be as traumatic as the name implies. It would certainly help to start correcting the deficit problem.



The European situation is another serious risk to consider, and that has largely been brought about by their efforts at addressing the deficit problem in a political climate that is even more fractured than in the US. How Europe will resolve the problems is hard to see at present, but we can expect the can to be kicked down the road for a while yet.

China's growth has been slowing recently, but it is still substantially greater than that of the US. The growth of the middle class in China is also having worldwide effects, making it less attractive for US and other worldwide companies to produce products there, but providing more potential customers for those same companies.

China leads us to another issue as well. Their population control is expected to result in an increasingly aging population, something that is also happening in the U.S. and Europe. That aging population will itself be a drag on the potential for growth, however, at the start of the recession a number of economists suggested that having low growth would be the best way to avoid the dramatic booms and busts.

Anyway, looked at overall, it seems as though slow but increasing improvement can be expected for the coming year.

We wish all our readers well for the New Year.