The PS Maturity Scorecard – your prescription for success by Jeanne Urich

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For seven years, we at SPI Research have been benchmarking various levels of operational control and process maturity to determine the characteristics and appropriate behaviors for professional services organizations based on their organizational lifecycle stage. The primary questions we sought to answer when we first conceived the PS

Maturity Benchmark in 2007 remain our primary focus today:

- What are the most important focus areas for PSOs as their businesses mature?
- What is the optimum level of maturity or control at each phase of an organization's lifecycle?
- Is it possible to build diagnostic tools for assessing and determining the health of key business processes?
- Are there key business characteristics and behaviors that spell the difference between success and failure?

1.What it takes to become a high-performing Professional Service organization

Table 1. Maturity Makes a Difference in Performance

Key Performance Measurement	Maturity Levels 1-2	Maturity Level 3	Maturity Levels 4-5
Percentage of respondents.	55	25	20
Annual revenue growth in percent.	9	12	10
Billable utilization (2,000 hours) in percent.	71.8	72.4	71.6
Project gross margin in percent.	35	39	39
Revenue per billable consultant in $K.	$166	$205	$235
PS EBITDA in percent.	**-1.3**	**10.2**	**26.9**

Source: Service Performance Insight, May 2014

The original concept behind our PS Maturity Model was to investigate whether increasing levels of standardization in operating processes and management controls improves financial performance. The benchmark demonstrates that increasing levels of business process maturity do result in significant performance improvements as shown in Table 1.

In fact, we found that high levels of performance have more to do with leadership focus, organizational alignment, effective business processes and disciplined execution than “time in grade.” Relatively young and fast-growing organizations can and do demonstrate surprisingly high levels of maturity and performance excellence if their charters are clear. Further improvements accrue when an organization’s goals and measurements align with its mission, and investments are made in talent and systems to provide visibility and appropriate levels of business control. Of course, it helps if it’s well-positioned within a fast-growing market.

The core tenet of the PS Maturity Model is that services- and project-oriented organizations achieve success through the optimization of five pillars:

1. Leadership: vision, strategy and culture.
2. Client relationships.
3. Human capital alignment.
4. Service execution.
5. Finance and operations.

The PS Maturity Model describes maturity guidelines and key performance measurements at each performance level. These guidelines illustrate examples of business process maturity while providing directional advice to move to the next level. This study measures the correlation between process maturity, key performance measurements and service performance excellence.

Taking the first step toward recovery

We've all heard about recovery programs. The funny thing is that they all start with you realizing you have a problem, and you're sincerely interested in doing something to fix it. Recovery is a process that involves several steps. You can't get to the next one without taking the first one.

The formula for improving professional services business performance has a lot in common with health improvement plans, weight loss plans and alcohol recovery programs — they all rely on an accurate diagnosis of the underlying issues that led to the problem in the first place. Lasting recovery depends on taking measurable steps toward an improvement goal, typically with the help of an expert coach.

One of my favorite expressions comes from Lewis Carroll's "Alice in Wonderland." "If you don't know where you're going, any road will take you there." Here's the conversation between Alice and the Cheshire Cat.

"Would you tell me, please, which way I ought to go from here?"
"That depends a good deal on where you want to get to," said the Cat.
"I don't much care where —" said Alice.
"Then it doesn't matter which way you go," said the Cat.
"— so long as I get SOMEWHERE," Alice added as an explanation.
"Oh, you're sure to do that," said the Cat, "if you only walk long enough."

Obviously businesses have more important things to do than wander aimlessly to prove they're going somewhere. Having a destination and a route in mind is a much better recipe for success.

Building an improvement roadmap

To create lasting PS business performance improvement, here are five simple steps to follow:

1. Realize you have a problem.

Denial is one of the dominant attributes of lackluster business performance. Acknowledging there is a problem is the first step to recovery. The problem may lie in new, fierce competitors who have changed the playing field. It can be rooted in technology shifts which have commoditized cash cow services. The inability to see or seize new market opportunities may be another cause. Or the heart of performance issues may be due to dysfunctional executive relationships and lack of alignment.

You can create an improvement plan after you've first assessed the root causes of the problem. Benchmarks are a powerful tool for problem identification. A good benchmark provides an apples-to-apples comparison to other professional services organizations in the same business.

2. Learn about recovery.

Finding a solution is the next step toward solving a problem. In this case, the solution involves learning about possible ways to advance. Diagnostic tools like the PS Maturity Scorecard help firms understand where they are now and what it will take to move up to the next level of maturity as shown in Figure 1. Each firm's improvement path will be unique, but visualizing the road peers have taken and the timeframes and investments they have made helps chart an improvement roadmap. Processes like the the PS Maturity Scorecard program help organizations avoid unnecessary potholes while focusing on the highest impact strategies.

Figure 1. PS Maturity Levels

	Level 1 Initiated	Level 2 Piloted	Level 3 Deployed	Level 4 Institutionalized	Level 5 Optimized
Leadership	Initial strategy is to support product sales and provide reference customers while providing workarounds to complete immature products. Leaders are "doers".	PS has become a profit center but is subordinate to product sales. Strategy is to drive customer adoption and references profitably. Leaders focus on P&L and client relationships.	PS is an important revenue and margin source but channel conflict still exists. Services differentiate products. Leadership development plans are in place. Leaders have strong background & skills in all pillars.	Service leads products. PS is a vital part of the company. Solution selling is a way of life. PS is included in all strategy decisions. Succession plans are in place for critical leadership roles	PS is critical to the company. Service strategy is clear. Complimentary goals and measurements are in place for all functions. Leaders have global vision and continually focus on renewal & expansion.
Client Relationships	Opportunistic. No defined solution sets or Go to Market plan. Focus is on new customers and references. Individual heroics, no consistent sales, marketing or partnering plan.	Start to use marketing to drive leads. Multiple sales models. Start measuring customer Satisfaction Start developing partners and partner plans. Some level of pricing controls.	Marketing, inside sales, solution sales with defined solution sets. Deal, pricing and contract reviews. Partner plan and scorecard. Tight pricing and contract management controls. High levels of customer satisfaction.	Business process, vertical and horizontal solutions. Centers of excellence. Top client and partner programs. Global contract and pricing management. Key partner relationships. Strong customer reference programs.	Executive relationships. Thought leadership. Brand building and awareness. High customer satisfaction. Integrated sales, marketing and partnering. High quality references.
Human Capital Alignment	Hire as needed. Generalist skills. Chameleons, Jack of all Trades. Individual heroics. May perform presales as well as consulting delivery.	Begin forecasting workload. Start developing job and skill descriptions & compensation plans. Rudimentary career paths. Start measuring employee satisfaction.	Resource, skill and career management. Employee satisfaction surveys. Training plans. Goals and measurements aligned with compensation. Attrition <15%	Business process and vertical skills in addition to technical and project skills. Career ladder and mentoring programs. Training investments to support career. Low attrition, high Satisfaction	Continually staff and train to meet future needs. Highly skilled, motivated workforce. Outsource commodity skills or peak demand. Sophisticated variable on and off-shore workforce model.
Service Execution	No scheduling. Reactive. Ad hoc. Heroic. No consistent project delivery methods. No consistent project or knowledge management.	Skeleton methodology in place. Initiating project mgmt. and technical skills. Starting to measure project satisfaction and harvest knowledge.	Collaborative portal. Earned Value Analysis. Project dashboard. Global Project Management Office, project quality reviews and measurements. Effective change management.	Integrated project and resource management. Using portfolio management. Global PMO. Global project dashboard. Global Knowledge Management. Global resource mgmt.	Integrated solutions. Continual checks and balances to assure superior utilization and bill rates. Complete visibility to global project quality. Multi-disciplinary resource management.
Finance and Operations	The PSO has been created but is not yet profitable. Rudimentary time & expense capture. Limited financial visibility and control. Unpredictable financial performance.	5 to 20% margin. PS becoming a profit center but still immature finance and operating processes. Investment in PSA to provide financial visibility.	20 to 30% margin. PS is a complete P&L. Standard methods for resource mgmt., time & expense mgmt., cost control & billing. In depth knowledge of all costs at the emp. , subcontractor & project level.	PS generates > 20% of overall company revenue & contributes > 30% margin. Well developed finance and operations processes and controls. IT Automation & integration for all areas.	> 40% margin. Continuous improvement and enhancement. High profit. Integrated systems. Global with disciplined process controls and optimization.

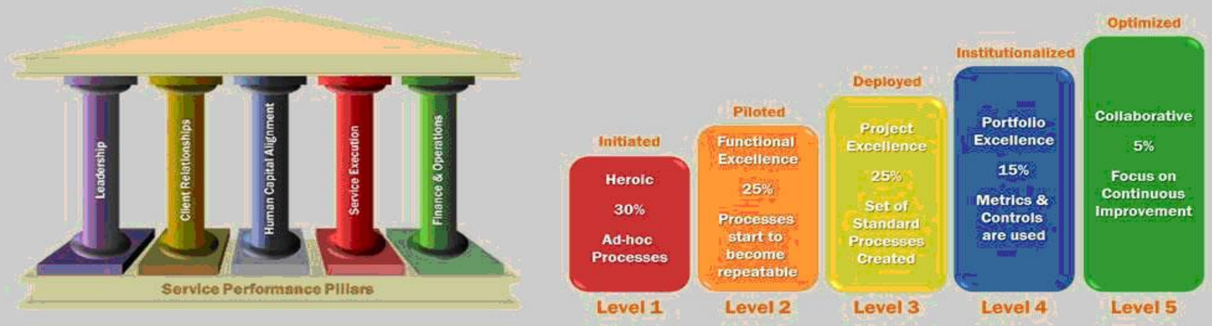
Source: Service Performance Insight, May 2014

3. Seek expert advice.

Enrolling in any improvement program involves discipline and determination. Expert coaching and advice reinforce positive steps while preventing back-sliding. Having an impartial yet knowledgeable business adviser can help reduce the emotional stress of change.

Organizations are best served by seeking expert advice to develop valuable new growth opportunities before competition or lack of alignment has cornered the firm into a death spiral. Here again, having an empirical benchmark standard provides a fact-based reality check and objective yardstick of the value of improvement. A scorecard like the one shown in Figure 2 is one way to do it.

Figure 2. Measure Service Performance Progress with a Scorecard



Finance & Operations Performance Indicator	Consulting R Us	Peer Average	Survey Average	Level 1	Level 2	Level 3	Level 4	Level 5
Annual revenue per billable consultant (k)	$200k - $250k	$229	$193					
Annual revenue per employee (k)	$150k - $200k	$190	$155					
Average revenue per project (k)	$500k - $1mm	$197	$189					
Project margin for fixed price projects	Blank	37.1%	36.3%					
Project margin for time & materials projects	20% - 30%	38.9%	37.6%					
Average project margin — subs, offshore	Blank	38.8%	28.8%					
Quarterly revenue target in backlog	40% - 50%	42.1%	45.0%					
Percent of annual revenue target achieved	Under 80%	84.7%	89.9%					
Percent of annual margin target achieved	Under 80%	87.1%	88.2%					
Revenue leakage	Over 10%	3.03%	4.17%					
% of inv. redone due to error/client rejections	1% - 3%	0.89%	2.10%					
Days sales outstanding (DSO)	Under 30 days	47.6	44.1					
Quarterly non-billable expense per employee	Under $1,500	$1,094	$1,392					
% of billable work is written off	Over 10%	1.97%	3.00%					
Executive real-time wide visibility	Minimal	3.72	3.57					

Source: Service Performance Insight, May 2014

4. Prevent relapse.

As with all programs that require change, participants often don't allocate the time, money or attention to fully develop and fund improvement priorities. Day-to-day business and tactical issues get in the way of long-term growth strategies.

Let's face it. It's hard to change old habits, so the temptation to resume business-as-usual behaviors is strong. This is a crucial stage for long-term, sustainable business enhancement because it defines the future path, whether change is possible and if the executive team is willing to see it through. Cement and reinforce improvement plans with quarterly check-ins and annual check-ups with the help of a coach and roadmap.

5. Maintain business improvement efforts.

Developing a lasting, sustainable growth strategy is hard especially when it involves change and building new management disciplines. The thirst for continuous improvement must become part of the organization's DNA. Progressing through maturity levels depends on adopting repeatable and sustainable methods, tools and measurement systems.

Permanent business improvement does not happen overnight. The maturity model is not static as it reflects the dynamic and ever-changing PS industry and emerging best practices. Each year, the bar has been raised. Best-in-class performance five years ago may now be considered average. Maturity advancement requires continuous effort to take advantage of changing market dynamics. Preventing business setbacks requires maintaining healthy business measurements and controls.

About Service Performance Insight

Over the past seven years, more than 10,000 PSOs have used the concepts and KPIs from SPI's PS Maturity Model to pinpoint their organizations' current maturity and develop improvement plans to advance in lagging areas.

SPI Research works with PS firms to create a maturity scorecard to compare to the benchmark maturity definitions. It analyzes current performance and helps prioritize future improvement initiatives. At the end of the project, leaders not only understand the maturity model, but also have the tools to identify, frame and prioritize strategic improvement priorities required to accelerate performance.

To learn more about SPI Research services and how SPI can help your company, please contact Jeanne Urich at jeanne.urich@spiresearch.com or phone (650) 342-4690.