

Statement of Work: The Foundation for Delivering Successful Service Projects

Sales and execution teams can't reside in their comfy silos if service projects are to meet customer expectations.

by Michael G. Martin, PMP

CONGRATULATIONS! Your firm has just been awarded the largest outsourcing project in its history and you've been recommended to be the project manager for the account. Initially, you feel extremely excited about this new challenge; however, those feelings quickly subside when you realize that you weren't part of the team that sold the account and you're not sure what commitments were made to the client. Your first action may be to go to the sales manager to determine what services you'll be providing to the client, and to find out if the sales team developed a detailed Statement of Work (SOW). The response you'll likely get will be vague at best, and in fact may come in the form of a question ("What is a SOW and why do we need it?") rather than an answer. This is not to say that the sales and marketing organization is incompetent; it is saying, however, that they may not be seeing the full picture of the project from marketing through delivery.

Historically, the role of the sales and marketing groups have been to bring business into the firm and then turn everything over to a project manager or an implementation team to deliver the job. Sales and marketing groups are generally not concerned with the delivery end of the project, much less with doing a detailed planning effort to ensure that the organization can deliver on what was sold to the client. This lack of foresight and planning has led to billions of dollars lost every year on failed projects.

The Standish Group's recently updated *CHAOS Report* expands on their 1995 research paper, which revealed some startling statistics on Information Technology project failures. New estimates indicate that failed and challenged projects cost U.S. companies and government agencies an estimated \$145 billion per year. The 1995 *CHAOS Report* identified three main factors that caused projects to fail or be challenged: lack of user input, incomplete requirements and specifications, and changing requirements and specifications.

These extraordinary failure rates and the subsequent loss of dollars, caused by the above three factors, can be corrected or improved upon with one single document: a detailed Statement of Work. To ensure that the trend for delivering future projects improves, it is imperative that project managers educate not only sales and marketing groups but also all team members on the importance of having a detailed SOW. This includes defining and providing guidance on when the SOW should be developed as well as what information should be included in it and who should draft it.

What Is the Statement of Work? In educating the organization on the importance of the SOW, one of the first things you need to do is clearly define exactly what it is and how it's applied within your particular organization. *A Guide to the Project Management Body of Knowledge (PMBOK™ Guide)* defines a Statement of Work as "a narrative description of



products or services to be supplied under contract." The definition, as written, can be interpreted to mean only those products and services to be provided to the client; however, in actuality, it should also encompass the needs and requirements of the contractor to properly perform the delivery of the products and services (facility requirements, security access, and so forth). To ensure clarity, the definition may be expanded upon to read: "a narrative description of the products and services to be supplied to a client, as well as a description of the contractor's needs and requirements to properly perform the delivery of such products and services under contract."

The SOW must identify the responsibilities of all parties involved. Many service and outsourcing providers often become so focused on identifying and defining the client's needs and requirements that they overlook their own. However, it's imperative that the provider's needs and requirements also be met in order for them to deliver a quality product or service. For instance, in an outsourcing engagement, if proper facilities and acceptable working conditions aren't provided to the contractor there's a very strong possibility that the quality of service being provided to the client will suffer.

Why Is It Important? The SOW establishes the baseline or foundation upon which the services and products are to be delivered. The importance of having a solid foundation almost goes without saying. Imagine the construction of a house. One of the first things you do in constructing a house is to build the foundation. Since this is what the physical structure rests upon, the structural integrity of the house is largely determined by the stability of the foundation. While it's relatively easy to go back and make adjustments to the superstructure, it is often impossible to make changes or adjustments to the foundation. Thus, it's imperative that the foundation be constructed right the first time.

How many people do you know who would want to live in a house that wasn't constructed on a solid foundation? Probably none! Even the Christian Bible (*Life Application Bible*, 1991, co-publishers Zondervan Publishing House and Tyndale House Publishers) addresses the importance of having a solid foundation when, in the Book of Matthew, Jesus used house construction as a metaphor for building your life on a solid foundation:

Therefore everyone who hears these words of mine and puts them into practice is like a wise man who built his house on the rock. The rain came down, the streams rose, and the winds blew and beat against that house; yet it did not fall, because it had its foundation on the rock. But everyone who hears these words of mine and does not put them into practice is like a foolish man who built his house on sand. The rain came down, the streams rose, and the winds blew and beat against that house, and it fell with a great crash.

In this analogy, of course, the rock (or foundation) is God. In the case of a service or outsourcing engagement, however, the SOW is the foundation or rock upon which we build our project. When a project or contract is entered into without a detailed SOW, it is just like constructing a house upon sand, with the end result being the same. The wind and the rain could be synonymous to the scope, cost, and schedule changes that are constantly impacting projects. No matter how much detailed planning you do, changes will occur and, without a SOW, may impact the project until it is no longer manageable and it reaches a point of imminent failure. And just like the house built upon sand, the failure of a project initiated without a SOW will be great and heard throughout the organization.

The genesis of most project failures occurs not in the implementation or execution phase of a project, but in the initiation and planning phases. During this time you establish the foundation that will ultimately determine whether the project will succeed or fail. Without a detailed description of the work to be performed, you're essentially managing a project with an unknown objective; as such, you have no baseline upon which to measure progress or to base change (i.e., scope, cost, schedule, etc.). It's also important to note that change doesn't necessarily cause a project to fail. It's an organization's inability to properly *manage* change that will ultimately lead to project failure. Without an established baseline or foundation for a project, you are left trying to manage change on an undefined or unknown scope.

The SOW is also a supporting document to the contract. The contract defines the legal terms and conditions whereas the SOW defines in detail what services and products

will be provided to the client, as well as what you, the service deliverer, require from the client to properly provide those services and products. It basically provides all parties with an objective measure of when work is satisfactorily completed and when payment is justified for such work.

What Are the Key Elements? The generally accepted rule for the format of a SOW is that it adheres to the coding structure of the Contract Work Breakdown Structure (CWBS) (*Project Management: A Systems Approach to Planning, Scheduling, and Controlling*, fifth edition, Harold Kerzner, 1995, Van Nostrand Reinhold). However, some service and outsourcing projects may not necessarily lend themselves to such a coding structure. Unlike the construction industry, the service and outsourcing industry is very immature in its project management processes, procedures, and methodologies. For instance, in a competitive bidding situation the response time to an RFP may be as short as one week or less. In cases like this, a CWBS is often completely neglected. (I'm not endorsing that the CWBS be neglected, but simply stating a reality in the service and outsourcing industry.)

If a CWBS is not developed, it is imperative that the organization has a preformatted or generic SOW in place, which can be customized to a particular account. There is no generally accepted standard format for a generic SOW; rather, it is up to each individual organization to determine how it should be structured—assuming that the client doesn't already have a required format (which in most cases they don't). It is extremely important that the agreed upon format be used enterprisewide, particularly in a decentralized organization where you have offices at the local, regional, and national level. This will build consistency throughout the organization, ultimately leading to improved and higher-quality SOWs.

A sample generic SOW for a service or outsourcing project may include, but not be limited to, table of contents; statement of confidentiality; description of work with assumptions and constraints; services to be provided; facility requirements; security requirements; marketing requirements; transition requirements; training requirements; reports; roles and responsibilities; schedule; pricing; approval; glossary of terms; and appendix.



One of the primary reasons for having a generic SOW in place is to allow the organization to respond quickly to an RFP with a very competitive price, based on the information available at the time of response. The generic SOW not only provides you with a standard format to follow, but also provides you with boilerplate language within each section. Although customization will be re-

quired for every client, the ultimate goal is to minimize the amount required as much as possible.

When Should It Be Developed? Due to the short time frames often allowed in responding to RFPs on service and outsourcing projects, it is imperative that the SOW be developed as soon as possible in the proposal process.

In *Project Management: A Systems Approach to Scheduling, Planning, and Controlling*, Dr. Kerzner recommends that there be two types of SOWs: (1) Proposal Statement of Work (PSOW) and (2) Contract Statement of Work (CSOW). This same approach can be applied easily to service and outsourcing projects. In a competitive bidding situation, a Proposal or Preliminary SOW would be developed and submitted with or prior to the RFP response. If the proposal is accepted by the client, the service provider will, hopefully, be given a certain amount of time to perform a detailed due diligence analysis of the client's environment to collect as much detailed information as possible. Once the due diligence effort is completed, the CSOW would be developed using the detailed information gathered during this effort. The CSOW would then be used as the supporting document to the contract with the client. Thus, the CSOW would establish the baseline for the work to be performed, upon which changes to the scope, cost, schedule, manpower, and so forth would be based.

Who Should Develop It? Ideally, the Program or Project Office should have ultimate responsibility for developing the SOW, with input from the subject matter experts (SMEs) in the organization who will be required to deliver the product or service to the client. If a formal Program or Project Office is not available in the organization, the responsibility may default to the sales and marketing group. If this is the case, it is important that a project/technical manager or SME assist the team in drafting the document. This will ensure that the services or products defined in the SOW are consistent with what the organization can deliver and have not been clouded by the potential commission awarded at closure of the deal. The project manager will generally not be in a position to be influenced by a commission and can therefore give an unbiased review and oversight of the document to ensure minimum risk to the organization.

The most important member of the team developing the SOW is the client. It is imperative that the client be an active team participant to ensure that all requirements are being captured and any comments are being addressed during the initial draft. This will also help to ensure that both the client and the service provider understand the scope of

Successful Projects Manage Risk With:

Measurable,
Focused,
Prioritized,
Mitigation
Plans.



Let us help
you find and
defuse the
risks

A Proven Method for assessment
that draws upon **best in class** data
from over 2000 projects

**The Cushing Practice
Spectrum Technology Group**

1-603-883-0130 1-415-512-1339

www.cushing.com

Reader Service Number 5147

the services being provided and decrease or eliminate any elements that may be left open for interpretation. A SOW developed without client involvement may lead to multiple revisions of the document and ultimately to project delays; delays due to the process of the client receiving the document for review, making comments and returning the document to the team for correction, and the cycle continuing until such time that the client is satisfied that the document captures all of their needs and requirements. This process is very inefficient and could possibly delay the start of the project for months, and increase cost because of the delay.

Improving Profitability and Client Satisfaction.

David Maister, in his book *Managing the Professional Service Firm* (Simon & Schuster, 1997), states that "The First Law of Service" can be expressed as a formula: SATISFACTION = PERCEPTION - EXPECTATION. In other words, if clients perceive that the level of service they are currently receiving is something less than what they expected, they are going to be dissatisfied. This is particularly true for projects that do not have a detailed SOW. Without a detailed SOW, the client might be expecting to receive X, Y and Z services when in actuality they may have only been sold X and Y services. Also, without having a document (SOW) that specifically defines the services to be provided and the roles and responsibilities of both the client and contractor, the door is left open for interpretation.

The lack of clearly defined project requirements is backed up by findings from The Standish Group, which estimate that 94 out of 100 projects will be reinitiated or reactivated before they're completed. You don't have to be a math professor to know that the overall profitability of a project is going to be higher if you don't have to reactivate it later on. The phrase "There's never enough time to do it right, but there's always time to do it over" is no longer acceptable. To produce a quality SOW, and be successful in managing your projects, you have to do things right the first time.

By standardizing and clearly defining how a SOW is formatted and developed, you will start building consistency throughout the organization. This will ultimately lead to higher-quality SOWs, which in turn will result in higher client satisfaction and profitability for the firm. If we look again at the three

main factors that cause challenged projects—lack of user input; incomplete requirements and specifications; and changing requirements and specifications—we find that all of these have their root in the failure to develop a quality SOW. By building consistency, you decrease the probability of specific requirements and specifications—of both the client and contractor—being overlooked. This, in turn, decreases the probability of "scope creep" occurring on the project, which could potentially lead to lost revenue if not managed properly. Also, by decreasing or eliminating the possibility of potential scope creep, you will have a higher probability of achieving, or possibly increasing, your original projected revenue for the account as well as achieving a higher level of client satisfaction.

IMPROVED PROFITABILITY and client satisfaction don't just happen. Albert Einstein put it quite nicely when he said, "If there is no price to be paid, it is also not of value." It takes time, effort, and commitment to devel-

op a quality SOW and establish consistency throughout the organization. Without the desire and commitment to do the job right the first time, the rate of project failure will continue to soar.

Some groups may claim that they've made money in the past without a Statement of Work. Unfortunately, in today's global market the past is not necessarily a good indicator of project success in the future.

If you're managing a project without a detailed SOW you may as well be building upon sand. If your project doesn't have a solid foundation, even the smallest change could negatively impact its chance of success. Will you take this risk? Or will you make the effort to build your project on a solid foundation? ■

.....
Michael G. Martin, PMP, is the national practice manager for project management with ENTEX Information Services. He is also president of the Georgia PMI Chapter as well as a charter member of the Service and Outsourcing Specific Interest Group and a frequent speaker to PMI chapters, companies and schools on the topic of project management.



Call for Seminar Presentations

**PMI '99 Seminars & Symposium
 Philadelphia, PA USA
 8-15 October 1999**

- ❖ Pre-symposium seminars will be held on 8-10 October.
- ❖ Post-symposium seminars will be held on 13-14 October.
- ❖ Most seminars are one or two days in length.
- ❖ Honoraria and travel expenses are offered.

To request an instructor application call PMI Central Services at 610/356-4600, Option 3 or visit our website at www.pmi.org/edu_trn/instrapp.htm

PMI uses the one-time application as a resource for selecting instructors for a variety of PMI educational events on an ongoing basis. If you have already submitted an Instructor Application, you need not submit one again.

Completed applications must be delivered to:
 Project Management Institute Headquarters
 Education Coordinator
 Four Campus Boulevard
 Newtown Square, Pennsylvania 19073 USA

Submission deadline: 31 December 1998.