



# Adapting capital program delivery with organizational agility



The delivery of complex capital projects is fundamental to economic diversification in the region and currently there is a US\$3.5tn pipeline of awarded and planned capital projects in the GCC. Historically, to support the delivery of these projects, public sector entities and real estate development organizations have relied upon outsourced (or third party) capabilities such as Project Management and Cost Management Consultants (PMCMs). However, with the growing scale and volume of projects and complex programs initiated in the past five years, the effectiveness of the PMCM/outsourced delivery model has been impacted and may have run its course. While there are advantages of an outsourced-dependent delivery model, the overreliance on these services, and the inevitable supply chain constraints, is leading to diminishing benefits for delivery organizations.

#### **The outsourced delivery model & added-value**

During the region's construction boom in the last two decades, the outsourced delivery model was the preferred approach for managing capital projects within delivery organizations. This allowed organizations to embed external capabilities of PMCMs to support their own internal skillset. Through this approach, delivery organizations were able to maintain lean organization structures while relying on external expertise to manage consultants and contractors, report costs, monitor schedules, coordinate construction activities, and ultimately manage the project as a whole.

In some instances, the role of the PMCM extends beyond augmented resource and includes the development and application of entire functions (such as project controls). This approach is typically seen across emerging start-up delivery organizations, which have not yet established their own controls and governance arrangements.

The outsourced delivery model engages technical and commercial specialists to manage complex projects and programs, who bring tried-and-tested project management frameworks and strong

track record to organizations for a price. The more subtle benefits allow delivery organizations to reduce recruitment overheads, labor turnover, and training costs. The outsourced delivery model provides flexibility to the capacity of resource, which is beneficial to the scaling/downsizing of capabilities. Based on these factors, the outsourced delivery model can provide benefits if implemented correctly.

#### **Role and accountability split**

The success of the outsourced delivery model is derived from how effectively organizations are able to embed and integrate external resource into the

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delivery structure. Clear demarcation of roles and responsibilities will preserve the delivery of an organization's accountability over projects. The client organization will always remain accountable by being the ultimate decision-maker on projects. The PMCMs help inform the client owner by providing performance monitoring and project management to navigate the complex and ever-changing project environment.

However, the outsourced model may limit the development of internal capabilities, leading to organizations being over-reliant on outsourced capabilities. This can diminish the client's ownership and lead to the external capability taking on more accountability from the owner.

#### **Diminishing benefit through outsourcing**

Beyond accountability, overreliance on external support can also impact long-term growth and development prospects of the organization's capabilities. Rather than fostering internal capabilities or acquiring new talent, relying on third party resource is unlikely to bring innovative ways of working and may even be a drag on productivity. For emerging start-ups in multi-phase programs spanning beyond five years, the outsourced model can stifle the growth and maturity of the internal capabilities.

PMCM contracts have time and fee restrictions, which reduces flexibility of project timelines, so any delays will be used as the basis for prolongation claims. With a thin organization structure, it is likely that challenges associated with handover and skill-transfer will emerge, with limited internal resource to manage delivery continuity-leading to higher than envisaged costs.

Commercially, heavy dependence on external resource will lead to large teams of expensive expert capabilities augmented into the client organization. Most of this spend would be at a premium over internal resource recruited through conventional channels. This is not cost-effective in the long-term.

Recent shifts in market forces have made the access to external project management services even more limited and indeed fast becoming a constraint to the way client organizations set up their delivery model.

## A seller's market

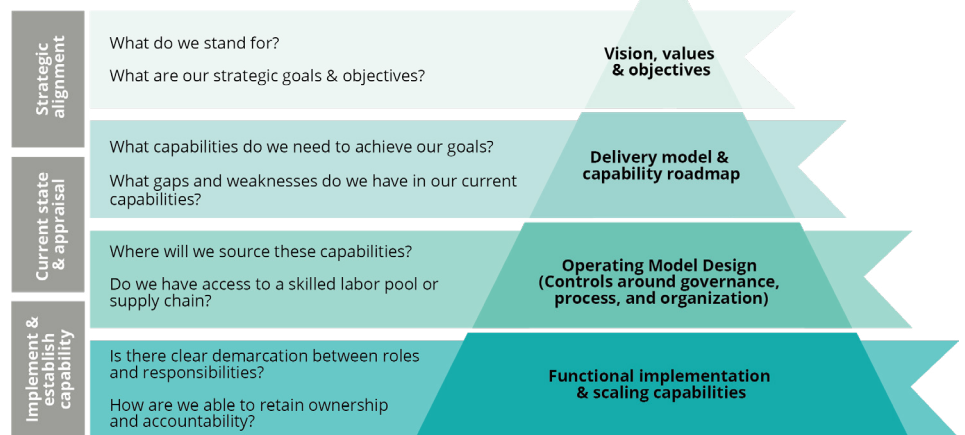
Start-up development organizations and competing giga-projects (and programs) across the region are all relying heavily on the outsource delivery model to scale their capabilities. With each program more complex and time-demanding than the next, access to top-tier PMCMs is becoming increasingly strained and first-to-move programs have already begun cannibalizing market capacity. Through supply-demand dynamics, the procurement of external services has transformed into a seller's market. With overreliance on the outsource delivery model, delivery organizations in the medium-to-long term will face a shortage of PMCM services. In addition, delivery organization will encounter difficulties in procuring services at optimum value and diminish their commercial leverage over the supply chain.

## Restoring benefit and defining capabilities

With fast-changing market conditions, alternatives, or adjustments the outsource delivery model needs to be considered to restore the value and benefits of outsourcing capabilities.

It is essential for organizations to be aware of their existing capabilities; this can be achieved through an appraisal and gap analysis of their internal skillset. Once the operating vision and delivery strategy have been defined, in accordance with enterprise values and strategic goals, a capability model and roadmap can be developed, and subsequently the Operating Model Design. The Operating Model Design will firmly establish the organization's inner workings and put up the controls surrounding governance, process, and organization. Through this, client ownership and accountability, complemented by tactical support of external skills and capabilities, can be defined to support efficient and effective decision-making on capital projects.

*Stepladder to achieving balance between external resources and internal capabilities:*



## Success drivers

To conclude, access to external capabilities through a strained and cannibalized supply chain has significantly reduced the ability to heavily rely on PMCM services. Start-up and emerging delivery organizations dependent on the outsource delivery model are likely to experience challenges in the development of their internal capabilities and advancing their maturity. Organizations that use a capability roadmap, aligning capability requirements with their values, objectives, and supply chain constraints, will be most successful. Functional implementation and scaling internal capabilities, combined with tactically procured external services that clearly define ownership and accountability, provide the best value for money and are key components for successful program delivery. ●

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