



Pegaso Peru: An Overdue Project (A) and (B)

Case

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Abstract

Brunella Noli, General Manager of a Peruvian consulting firm (Pegaso Peru), reviews the history of a troubled IT project for client Casa Master Center (CMC). The project is 11 months overdue, and CMC is an increasingly unhappy client. Noli's review, which starts with the sale and recounts the project's scope, contract and implementation, uncovers a series of problems. Noli seeks to resolve these issues without incurring additional costs. She worries that the relationship with the client is rapidly deteriorating and she fears that this will damage Pegaso's reputation. A second one-page Case B recounts what happened next. This case is based on actual events in real organizations. The identities of the parties involved have been changed, along with other key information, to preserve anonymity.

Case

Keywords: project management; closing project; human resource management

Introduction

Very early on Monday, 22 February 2010, Brunella Noli, the United States). A sales office in Sao Paulo, Brazil serviced Pegaso Peru's General Manager, thought about the Casa Master Center (CMC) project, which had gone badly. Its project manager, Ana Perez, had recently resigned. Noli, an experienced computer engineer, had been tempted to take over the foundering project herself, but instead asked Pegaso's Operations Manager, Rafael León, to take it on. Now, in preparation for a meeting with León to review the work plan, Noli was reviewing the project file. She had two main concerns:

- 1.
Noli needed to understand what had gone wrong so that she could salvage the relationship with CMC.
- 2.
CMC owed Pegaso a substantial amount – final payment on the delayed project.

As of 22 February, only the testing phase needed to be completed. However, completing this phase would require the cooperation of a currently uncooperative client.

Pegaso and Pegaso Peru

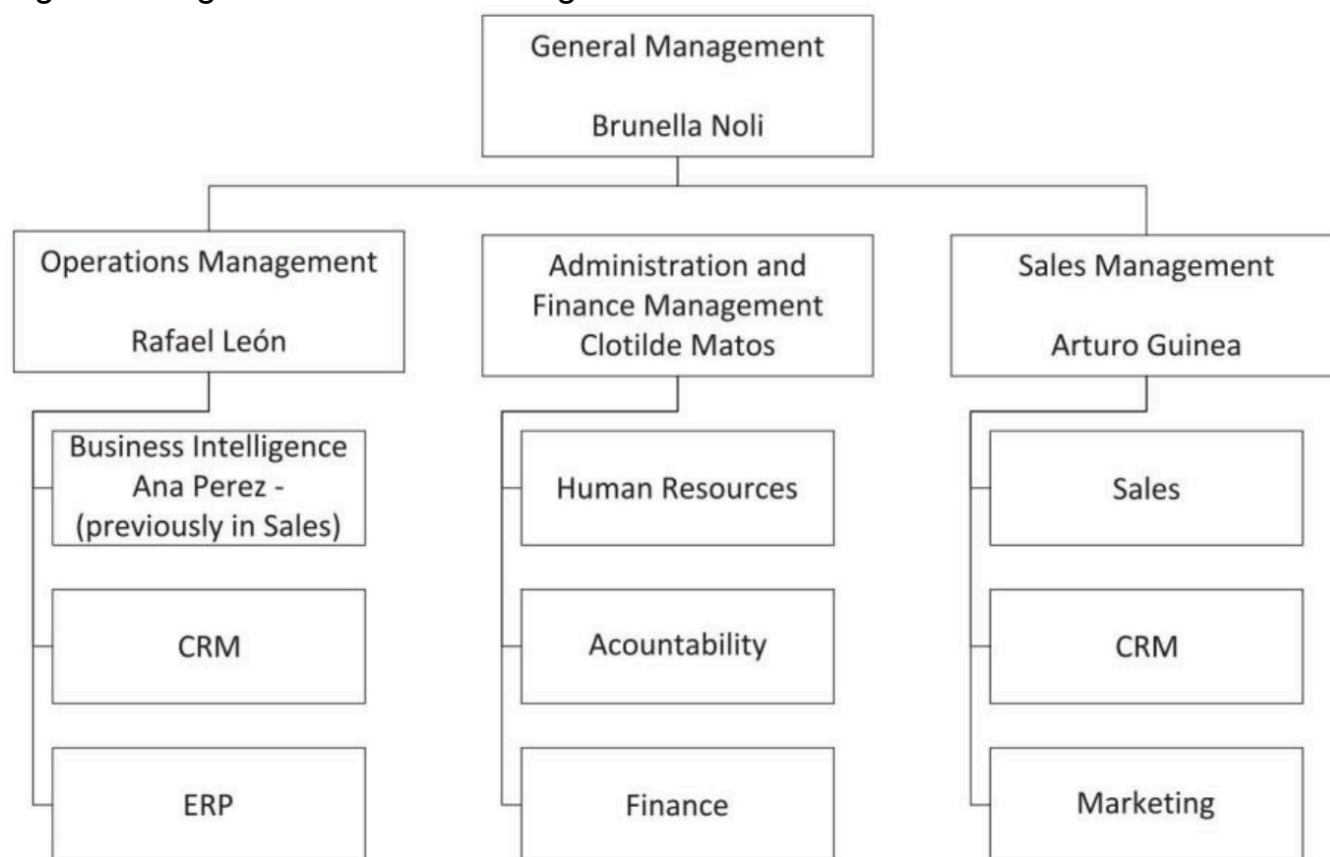
Pegaso, a 4-year old Uruguayan company, employed 170 people in five countries (Uruguay, Argentina, Chile, Peru and its exclusive contract with a multinational company. Pegaso offered SAP technology solutions, leveraging SAP's reputation and acceptance in many industries. Approximately 500 companies had implemented SAP technology in Latin America, yet many underutilized SAP products. This left a niche for Pegaso to target small- and medium-sized companies.

Pegaso specialized in Business Intelligence (BI) applications. The firm used SAP's Business Objects tool to develop planning tools such as dashboards, balanced scorecards and reports. The firm adapts SAP's Business One tool to develop applications for automation, process integration and management of distributor, dealer or subsidiary networks. Pegaso also built Customer Relationship Management (CRM) solutions and basic CRM services for managing marketing campaigns and sales contacts

Brunella Noli had previously worked as a consultant with Arthur Andersen in Peru, including a spell on an SAP integration project with system consultants from Pegaso Uruguay. Handpicked to lead Pegaso Peru as its General Manager and given a stake as a partner in Pegaso, Noli had set up the Peru organization. She

considered this as a major accomplishment in a career built on a series of successful projects. As a competent multi-tasker, she undertook operational as well as governance roles, while her competitive personality drove her ambition to develop Pegaso Peru into Peru's largest domestic IT consulting business.

Figure 1. Organization chart for Pegaso Peru.



Pegaso Peru now had 25 full-time employees and had built a sizeable list of approved sub-contractors. The Operations Department consisted of BI, CRM and Enterprise Resource Planning (ERP) service units. Administration and Finance oversaw Human Resources, Accounting and Finance, and the Sales Department was responsible for Sales, Resource Management and Marketing. Pegaso Peru's organization chart is presented in [Figure 1](#).

Pegaso's customer base consisted of firms in industries such as retail, gas supply, transportation, insurance and local government (see Resources). Most projects lasted for 4 or 5 months, but Pegaso had taken on and completed some bigger projects, and aimed to do more of these lucrative projects. Pegaso charged about 400–500 Nuevo Soles (US\$140–175) per day per person, assigning consultants as they were available and filling expertise gaps from the list of approved contractors. Several senior in-house consultants, who were very experienced, commanded considerably more than the average charge-out rate.

Pegaso received orders through referrals, re-engagement and competitive bidding. Sales consultants met with clients to learn their needs, then outlined how Pegaso could implement off-the-shelf or customized solutions. System engineers and implementation staff clarified the project scope and planned and implemented the projects. Usually the technical people were brought in after an initial contract was signed. Pegaso contracts were in two parts. The first part specified time needed to scope the work that would culminate in a Business Blue Print (BBP) which would include a detailed work schedule for the implementation. A second contract was signed when the client agreed with the BBP schedule and key milestones. Key details of the Pegaso Peru BBP for CMC are contained in Resources.

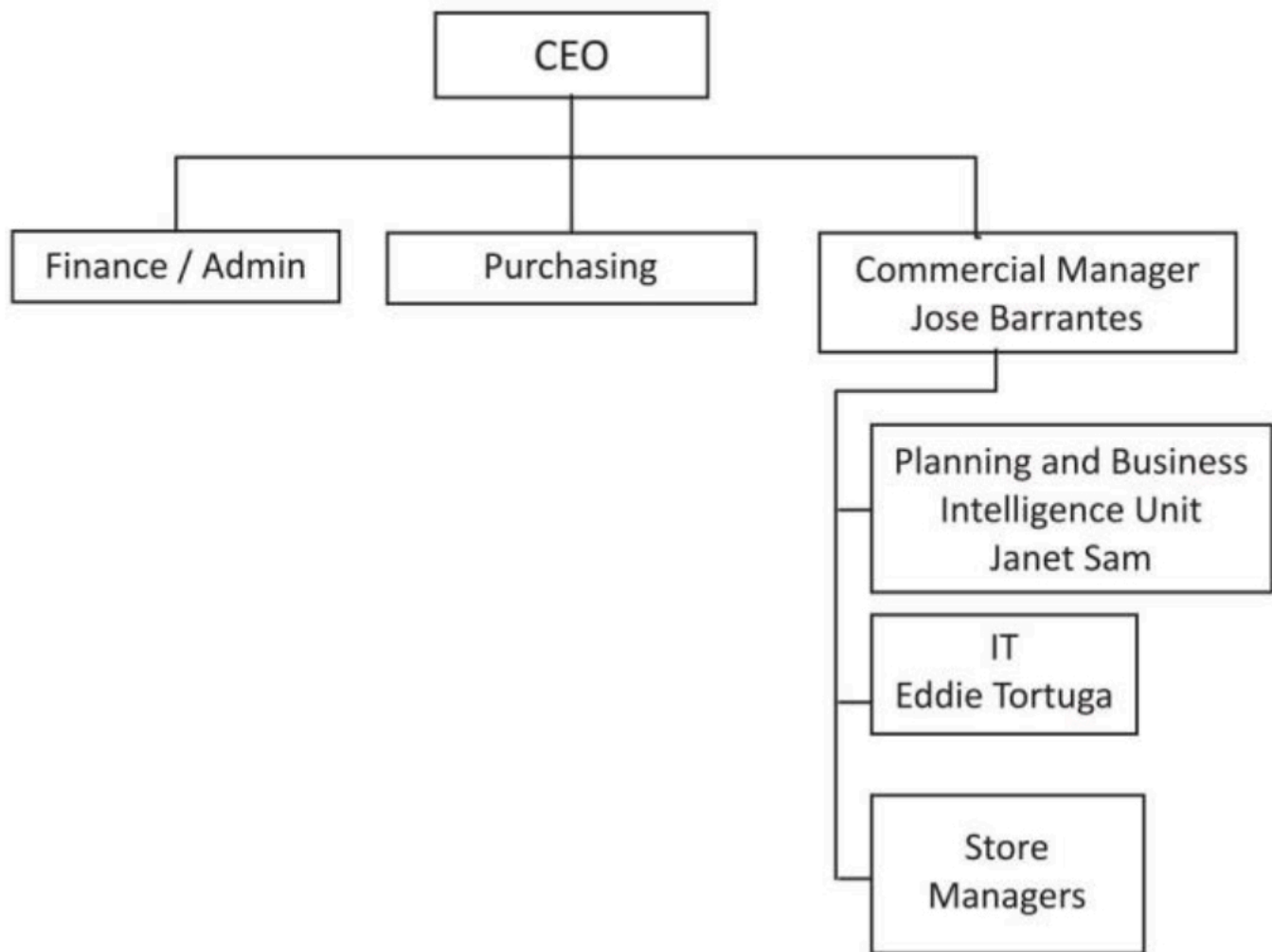
Casa Master Center (CMC)

CMC was a retailer of building and home improvement materials, whose internal processes became more complex as it grew. Budgeting, in particular, required greater accuracy, given the large number of items it stocked across a growing number of stores. Thus, CMC's budgeting process was becoming unwieldy and inefficient, and its forward projections were often unreliable. High turnover among the administrative staff (in whom CMC invested significant time and training) meant that most of the workers responsible for preparing budgets were young and inexperienced.

Each September, CMC departments set their budgets for the coming year. Budgets were calculated based on previous year's results, with projections developed using statistical growth calculations. Each of CMC's nine stores and its sales area planning analysts (some of whom were new to the job) used individual Excel spreadsheets to compile historical records and generate projections. The finance department manually compiled these departmental budgets into a complete annual budget document. The rapidly growing company definitely needed an IT tool to streamline this process.

In December 2008, CMC sought to change their planning processes in time for the next year's budget round. The company now grouped its nine stores by establishment date: Group 1 consisted of stores more than 2 years old, Group 2 stores were 1–2 years old and Group 3 stores were those with less than a year in operation. A Planning and Business Intelligence unit was established, headed by Janet Sam. This unit was now responsible for CMC's forecasting process and business planning, including setting sales targets, estimating margins, turnover and disaggregated projections at each point on the stores' value chains. Sam led and coordinated the expenditure planning processes of departments and stores, and was also responsible for designing and implementing the annual marketing of all categories of goods sold, import analysis and customer surveys for the company. Janet Sam would thus become the key point of contact between CMC and Pegaso Peru. Key relationships in CMC's organizational structure are presented in [Figure 2](#).

Figure 2. Organization chart for CMC.



Brunella Noli Reviews the CMC Project File

Brunella Noli returned to the file to read the notes from the Sales Department.

Ana Perez, a representative in Pegaso's Sales unit, had been recommended to CMC's Commercial Manager, Jose Barrantes, through a college friend. Perez noted that Barrantes had understood the need for planning and budgeting software, but did not know which tool would best suit the new budgeting process that CMC planned to institute. Perez recommended Pegaso's modified SAP tools. Her report succinctly outlined CMC's needs and her proposed solution: the SAP R/3 Business Integration & Planning (BIP) sub-module (see Resources). This software would enable integrated budget planning for up to 5 years ahead. Perez's note also emphasized why CMC was a potentially important new client for Pegaso. Reading this, Noli nodded. Indeed, CMC was just the type of firm that Pegaso was targeting: small today, big tomorrow (and in great need of Pegaso's services) and success with this client would greatly enhance their reputation in the Peruvian IT consulting industry.

Reading on, Noli saw that soon after the sales contact meeting in December 2008, Jose Barrantes met with CMC's IT manager, Eddie Tortuga, to learn his views on implementing BIP in light of CMC's current and future IT requirements.

This was Pegaso Peru's first SAP BIP project. Indeed, few companies in Peru had implemented BIP for budgeting. Some multinational companies had inherited this module from their parent companies, and a few domestic companies had hired expensive international consultants to implement BIP. Noli had felt confident about the project because the team would include an experienced senior consultant, Jorge Cubas, who had extensive experience in budget applications in general, and several years' experience with SAP R/3. Cubas

was extremely busy on other Pegaso contracts at the time, and was thus not available for the initial phases of this project. Taking him off the other work would have compromised their ongoing business, and besides he was one of the most expensive consultants that Pegaso used. Noli had decided that in the early planning phase of work Cubas would play an oversight-only role, whereby he would review the work output leaving the day-to-day project management and data collection to the assigned project manager. She did not feel this would compromise the overall quality and progress of the project. Noli scheduled Cubas to join the project full time at the start of the project implementation phase, and she asked Ana Perez to lead the project. Perez had taken on the role with enthusiasm. Coming from sales, she did not have much experience in SAP BI projects, but she had sold Pegaso's SAP solutions. Noli had felt confident that Perez would run the project smoothly.

Now Brunella Noli looked at the contract that was signed in February 2009. There was little she could do about this – what was signed was signed. As was typical for Pegaso, the sales consultant (Ana Perez) had worked closely with the client. However, the CMC contract differed from Pegaso's usual practice, in that its BBP included a provision that work would be delivered as required, for a final fixed price. The contract also contained standard penalty and non-performance clauses, allowing for the client to withhold payments and for delay costs to be borne by the responsible party.

Now Noli turned to the project monitoring reports. As she read, she felt a sense of unease; she should have taken more notice of them when they had been submitted.

Since Cubas was not available, another SAP specialist, Priscilla Ugaz, joined the team to undertake the scoping work and recording of client requirements. This was a significant promotion for Ugaz, who previously worked as an intern in a different department, with Jorge Cubas. Ugaz was new to budgeting and planning, but it was hoped that Ugaz would bring some of Cuba's specialized SAP knowledge into the initial phases. Thus, Ana Perez and Priscilla Ugaz had undertaken most of the opening work.

CMC appointed Janet Sam to lead the SAP BIP Module Implementation Project. Both Janet Sam and Jose Barrantes (the project sponsor) consulted with Eddie Tortuga on hardware matters.

Soon after the contract was signed, Ana Perez and Priscilla Ugaz toured the CMC facilities, collecting the required information to, in SAP parlance, 'build' the BBP. The BBP detailed all of the work to be performed, based on the customer requirements that Ugaz gathered. Ugaz was unfamiliar with some of the necessary terminology, and did not know how to confirm client requirements. She also did not ask many additional questions, and thus produced some incorrect or incomplete documentation. This requirements' definition phase had taken her 2 months, yet the project plan specified this step should have been completed in 1 month. By April 2009, the project had already slipped 15%. Noli wondered why she had not noticed this important fact when she first reviewed the progress reports.

Now, Noli noticed that Jorge Cubas had rejected Ugaz's BBP, saying that the data projections were not what he had expected. Reading on, Noli surmised that Priscilla Ugaz had reworked the entire BBP, not just the critical points that Cubas indicated needed to be addressed. The new document took 3 more months to complete. By July 2009, the data was now compiled as Cubas wanted it, but the project had moved well into the time reserved for implementation.

Curiously, the report revealed no indication that CMC had ever complained. Noli wondered why, since the contract specified firm deadlines. Instead, after 6 months had elapsed, Jose Barrantes received and approved the BBP on behalf of CMC, with apparently no complaint about the project overrun, even though the work was supposed to be completed by August 2009.

Next, Noli quickly reviewed the implementation monitoring reports to verify the periods of project suspension. Normally, Noli would only approve a project suspension if she determined that the client could not meet their commitments. However, the CMC project had been suspended several times.

In October 2009, during the final implementation phase, Ana Perez requested maternity leave. Noli appointed a temporary project manager to take over for Perez during her leave. The new project manager was urged to keep the project on track to meet the new estimated completion date of December 2009. However, much

to her disappointment, Brunella Noli had to approve a project suspension less than 2 months later, when notification came from CMC that several staff would be on vacation from mid-December 2009 until well into January 2010. The vacationers included Janet Sam and Eddie Tortuga. Now, reading the notes, Noli recalled that she had believed that little progress could be made if CMC's project leaders were not there to support it in person. She suspended the project until March 2010.

Now it was 22 February 2010. In recent weeks, things had really begun to unravel. In early February, Ana Perez returned from maternity leave, but soon after she submitted her resignation. With a view to close the project as quickly as possible, Noli appointed Rafael León, an operations specialist, to take over. Noli explained to a colleague: 'As Pegaso's Manager of Operations, León carries the authority to close the project.'

Soon, Leon reported that CMC had requested new reporting capabilities, for which Pegaso had not planned. Unfortunately, the contract had specified that CMC could request such enhancements and that Pegaso Peru would do the work at no extra charge. After assessing these requests and evaluating the time needed for their completion, Leon asked Noli to add more resources to the project before it resumed. An agreement was reached with CMC that June 2010 would be the new project completion date (11 months past the original August 2009 deadline).

How was it that the contract gave the client so much power? Thinking it over, Brunella Noli now understood that while Priscilla Ugaz had believed that the majority of the work on report development and finalization had been detailed in the BBP, there was uncertainty regarding the client's overall reporting needs. Therefore, final specifications for the report function were deliberately deferred until the actual number of reports could be known. Noli had discussed this issue with Ana Perez, and they had agreed to allow the provision in the BBP that entitled CMC to request further reports during the project's implementation phase. This clause was now the trigger for the new report requests. CMC had had plenty of time to consider its reporting needs, since the project had lasted nearly a year more than planned. Perhaps over time, CMC's expectations for the system had grown beyond what was initially envisaged in the BBP.

A knock on her door caused Noli to look up; it was Rafael Leon. He got right to the point, stating that he and others on the implementation team suspected that CMC was trying to leverage more from the contract than had been intended and informally agreed between Ana Perez and Jose Barrantes. There had been no prior assessment of time and resources required for any of the additional reports, should they be requested. Leon added an alarming comment:

If they keep asking for new reports, we'll never finish the project. How do we tell them that we will not accept requirements which were not originally committed to in the BBP?

Brunella Noli's reply to Leon was abrupt:

To finish depends on how many more people we assign. But CMC is not required to pay any more, because we're so far over schedule. We must close this as soon as possible!

Pegaso Peru: An Overdue Project (B)

Brunella Noli, as a partner of Pegaso and the General Manager of Pegaso Peru, had the sole responsibility for any project cancellation or recovery decision concerning the Peruvian operations. On 22 February 2010 she had met with Rafael Leon to decide how to complete the CMC project so that Pegaso could collect its final payment. However, in the weeks and days that followed, work progressed slowly. CMC kept requesting new reports, and as a result the revised deadline of June 2010 was not met; another extension was allowed. By October 2010, requests for new reports had stopped, and the system was ready for testing. Rafael Leon asked CMC to allocate the necessary time and resources to allow a complete and uninterrupted test. Leon felt that CMC's project leader, Janet Sam, would be the ideal person to train CMC's users. Sam had substantial knowledge of the project and was authorized to approve the project closure on behalf of CMC. Leon requested that the testing be completed by early December 2010.

In an email, Janet Sam argued that they did not have enough people to operate a test, because their internal

budget cycle and processes were underway. That was the unit's current priority, taking up all available staff time. Rafael immediately forwarded this reply to Brunella Noli. Once more, Noli decided to suspend the project until CMC staff could have the time to complete tests, report bugs and endorse the new system.

In December, a Peruvian private equity fund invested in CMC, becoming its largest shareholder. The recapitalized company announced that in March 2011 they would begin a 15-store expansion. At the same time, it changed its trading name to become the Casa Peru chain.

In February 2011, Janet Sam informed Pegaso that no system testing had been undertaken. The CMC staff had had problems introducing the test data into the module, and no debugging or user reports had been compiled. Brunella Noli immediately took over the project and held a tense meeting with Janet Sam. Noli had rebuked Sam over CMC's resource allocations. As tension built, Noli stated: 'I won't talk about this with you. I think I need to talk to your boss about it.' Janet firmly replied: 'I am in charge of the planning unit and if you get my boss involved in this issue, I'll be leaving.'

Noli did go to Sam's boss, Jose Barrantes, as she felt completing the project to maintain Pegaso's reputation was becoming increasingly important. They agreed on a new date to end the project: May 2011. Soon after this agreement, CMC announced that Janet Sam had resigned and a replacement had been appointed: a person who had little expertise with IT or planning and budgeting, who could not train other system users and who was unable to oversee the test of the new system and procedures.

In March 2011, Brunella Noli allocated additional resources to train CMC's staff, enabling a system test for final approval. At the last minute, however, CMC argued that they could not test the system because the Pegaso-trained test supervisor had resigned. CMC further claimed that they had no staff capable to run the system test.

The Pegaso trainers reported other alarming news: CMC now seemed to be operating a different system for budgeting and forecasting. Possibly, they had developed it in-house during times when the Pegaso project had been suspended.

Late one evening in mid-April 2011, as she pulled her car out of the park, Brunella Noli wondered if Pegaso would ever receive a final payment from CMC. At 75% of the project's value, it was a substantial sum being approximately 3% of Pegaso's annual turnover – but it was the reputational cost and potential for a personal defeat that concerned her most.

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