PMI's PULSE of the PROFESSION™ In-Depth Report

The Impact of PMOs on Strategy Implementation

Project Management Institute

REPOSITIONING THE PMO

PMOs are suffering an identity crisis.

Typically responsible for project and program delivery management and centralized within the organization, PMOs are well-placed to be the conduit for executing an organization's portfolio of projects and strategic initiatives. However, exploratory research conducted by PMI at the 2012 PMO Symposium and with PMI's Global Executive Council[1] revealed that PMOs are struggling with defining their role within organizations and demonstrating their value, despite evidence suggesting that PMOs offer a suite of benefits to organizations that champion them.

In *Transforming the Program Management Office into a Results Management Office*, Deloitte notes that "despite the perceived need for PMOs, their ambiguous role and often incomplete implementation limit their effectiveness. Traditional PMOs have become paper tigers, ineffective at managing programs to achieve results."[2]

Furthermore, project management practitioners talk confidently to each other about what the PMO does, but the truth of the matter is that no two are alike. There is an abundance of literature and research on the topic of PMOs, which demonstrates that various types of PMO structures exist and that these structures act in different ways, perform different tasks and implement organizational strategy in varying ways. However, there is no agreed on nomenclature that identifies, defines or separates these different PMOs. There is no formalized model and no standard consensus on the "right" form of a PMO. There is also little consensus even on fundamental notions, such as what the letters "PMO" actually stand for.

However, the importance of successfully managing projects and programs primarily through the PMO is made clear in PMI's 2013 *Pulse of the Profession*™, which uncovered that organizations undervaluing project management generally spend less time, money and effort on critical functions such as talent management. The result was a clear drop in rates of project success: firms risk US$135 million for every US$1 billion spent on projects.

With this amount of money at stake, it is not surprising that Pulse research also shows that the number of PMOs in organizations is generally on the rise, with about 70 percent of organizations having one compared with just 61 percent in 2006.

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Despite—or perhaps because of—this fast growth in PMO recognition, organizations have not extracted the full benefits from the PMO, especially in cases where PMOs lack the cohesiveness, direction from top managers and clarity of purpose to work efficiently and create value. The way they are structured, the power and influence they wield and the goals and objectives they set out to complete can vary dramatically.

PMI's *Pulse of the Profession™: PMO Frameworks* identifies the most prevalent PMO structures in practice today. It defines and quantifies the roles and responsibilities of each and profiles configurations across a number of different variables (see next page). This companion report is a starting point to understanding the current state of PMO practice and provides information to help move the PMO into the future.

PMI's research on PMOs shows that the business unit PMO is the most common type, present in 54 percent of organizations. However, one size certainly does not fit all, and organizations tend to structure their PMO to the needs of the business as well as their project management maturity level. Therefore, it is not surprising that our research also found that organizations have at least two types of PMOs.

PMOs completed an average of US$100 million worth of projects in 2012. Additionally, they delivered around US$71 million in value by way of revenue increases and/or cost reductions. The extent of the financial investment and gains at stake make it imperative that PMOs continue to evolve to maximize their value.

This report demonstrates that regardless of PMO type, **the alignment of the PMO to the goals of the organization is key to driving strategy implementation**. The research identifies how best-performing PMOs are structured and how growing organizations can develop them for the most positive results. The data demonstrates that PMOs that harness key capabilities will drive the successful implementation of strategy and ultimately show more value to their organization. High-performing PMOs are more than three times as likely as their low-performing peers to reach their full potential in contributing business value to their organizations.[3] Consequently, the financial performance of these organizations is far more likely to be ranked above average compared to competitors with low-performing PMOs.[4]

Furthermore, this report makes it clear that high-performing PMOs nurture capabilities that enable organizations to successfully implement strategy, contribute more value to their organization and ultimately impact financial performance.

Figure 1: Variety of names used to refer to the PMO

Most Prevalent PMO Frameworks and their Primary Functions

Organizational Unit PMO/Business Unit PMO/Divisional PMO/Departmental PMO:
Provides project-related services to support a business unit

% WHO HAVE THIS PMO IN THEIR ORGANIZATION:	54%
Primary Functions Performed (top 3 listed with % responding):	
Project/Program Delivery Management:	46%
Standards, Methodologies, Processes:	15%
Portfolio Management Prioritization:	15%

Project Support/Services/Controls Office or PMO:
Provides enabling processes to continuously support management of project, program or portfolio work

% WHO HAVE THIS PMO IN THEIR ORGANIZATION:	44%
Primary Functions Performed (top 3 listed with % responding):	
Project/Program Delivery Management:	47%
Standards, Methodologies, Processes:	19%
Portfolio Management Prioritization:	12%

Enterprise/Organization-wide/Strategic/Corporate/Portfolio/Global PMO:
Highest-level PMO often responsible for alignment of project and program work to strategy

% WHO HAVE THIS PMO IN THEIR ORGANIZATION:	39%
Primary Functions Performed (top 3 listed with % responding):	
Project/Program Delivery Management:	30%
Portfolio Management Prioritization:	25%
Standards, Methodologies, Processes:	20%

Center of Excellence/Center of Competency:
Supports project work by equipping the organization with methodologies, standards and tools

% WHO HAVE THIS PMO IN THEIR ORGANIZATION:	35%
Primary Functions Performed (top 3 listed with % responding):	
Standards, Methodologies, Processes:	41%
Project/Program Delivery Management:	24%
Strategic Planning:	14%

Project-Specific PMO/Project Office/Program Office:
Provides project-related services as a temporary entity established to support a specific project or program

% WHO HAVE THIS PMO IN THEIR ORGANIZATION:	31%
Primary functions performed (top 3 listed with % responding)	
Project/Program Delivery Management:	46%
Standards, Methodologies, Processes:	16%
Governance and Performance Management:	11%

Source: Pulse of the Profession™: PMO Frameworks

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ALIGNMENT OF THE PMO LEADS TO IMPACT ON STRATEGY IMPLEMENTATION

Some PMO types are easier to align with organizational strategy than others. There are many reasons for this, but most importantly it is the perceived role of the PMO within the organization and whether it is considered instrumental in achieving organizational success. Another key factor is the attitudes of senior managers and the access of the PMO to the chief executive and board members who offer a better chance of aligning PMOs to organization strategies.

Project-specific PMOs—temporary entities established to support a specific initiative—claim the highest level of business value realization among the PMO types. Nearly half of project-specific PMOs indicate they have realized their full potential in contributing business value to the organization compared to less than a third of the other PMO frameworks. This could be because project-specific PMOs are also more likely to report directly to chief executives—31 percent versus 17 percent—and therefore have a clear understanding of project objectives and unambiguous direction.

But the data is clear: there is still room for improvement across the board. Just 33 percent of respondents said their PMO has realized its full potential in contributing business value to the organization (Figure 2).

Overall, a PMO with a broader business-wide responsibility—such as an enterprise-wide PMO (EPMO)—is closest to delivering such value because it is more likely to routinely help in aligning project outcomes to strategic priorities (Figure 3). EPMOs are statistically more likely to also provide portfolio reporting and strategic alignment services, with 77 percent offering the former service and 65 percent offering the latter.

Ultimately, organizations that elevate the PMO to a strategic decision-making level are far more likely to be high performers, according to our findings. In fact, 42 percent of PMOs believe a more strategic orientation among project owners and stakeholders is a top way to increase the effectiveness of the PMO. Similarly, 34 percent pointed to the alignment of project requests and organizational strategy, whereas the same ratio quoted increased engagement with senior leaders as a likely factor.

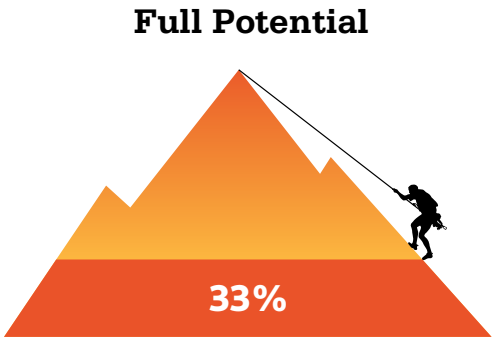

Figure 2: Percent reporting their PMO has fully realized its potential to contribute business value to the organization.

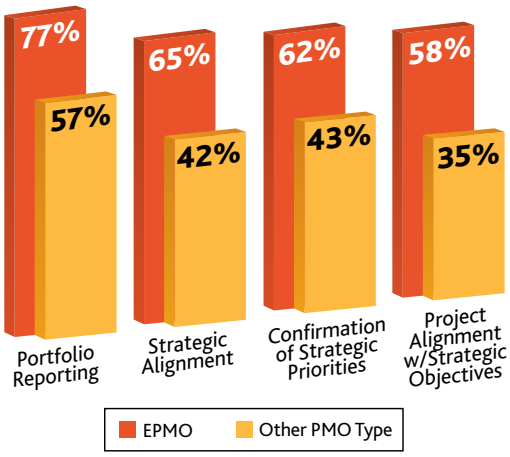

Figure 3: Services routinely provided by PMO type.

The 2013 report *Effective Project Management Offices: An APQC Best Practice Study* attests that "Best-practice PMOs go beyond alignment with strategic initiatives; they are involved in creating and implementing organizational strategy."[5]

PMI's research confirms this: PMO leaders cite project alignment to strategic objectives as the top-rated PMO function having the greatest potential for adding real business value to organizational activities.

Alignment of projects to the goals of the organization is, therefore, instrumental in increasing business value. And PMOs that are frequently involved in project alignment to strategic objectives of the organization are nearly twice as likely to be a high-performing PMO as those rarely involved (21 percent versus 12 percent). Additionally, high-performing PMOs are able to implement strategy more effectively, rating better than their peers on strategy formulation and four times more likely than low performers to execute formulated strategy (Figure 4).

Figure 4: High Performers are four times more likely than Low Performers to be rated better than their peers on strategy execution.

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COMPETENCIES OF HIGH-PERFORMING PMOs

High-performing PMOs are more than three times as likely to realize their potential in contributing value to their organizations as low-performing PMOs (56 percent verses 17 percent) and are much more likely to rank their company financial performance as "above average:" 69 percent versus 41 percent.

PMI's in-depth research on PMOs identifies specific capabilities within three broad areas that demonstrate how high-performing PMOs effectively implement the strategy of the organization and drive business value.

■ CREATE AN ORGANIZATIONAL CULTURE OF PROJECT MANAGEMENT

The most effective organizations not only recognize the need for project, program and portfolio management in everything that they do, but also give the PMO its proper credence—management authority, support and tools—within the operational structure of the business. It is vital that top executives understand the PMO and the best way to deploy and support it.

To create a culture that embraces project management and to increase the business value they bring to the organization, PMOs need to have clear direction, governance and support. They must be 1) staffed with skilled personnel and 2) have access to top management.

A key factor in fostering a culture that values organizational project management is understanding the importance of supplying the appropriate amount of skilled talent. Skilled employees are the backbone of successful organizations, but they are particularly important in the project management office and our findings show underperforming PMOs lacking in skilled personnel, both in terms of raw numbers and appropriate levels of training for the staff they do have. Insufficient resources were quoted by 36 percent of respondents as one of the biggest barriers to successful strategy implementation.

Ensuring sufficient skilled talent in the organization results in success. Compared with low performers, high performers are more than twice as likely to have the right skills base (27 percent versus 58 percent) and are much more likely to have adequate numbers of people (24 percent versus 42 percent).

According to the Economist Intelligence Unit study *Why Good Strategies Fail: Lessons for the C-Suite*, only 18 percent of top executives say "that the hiring of people with the necessary business skills or leadership talent to drive strategy implementation is a very high priority at their firms."[6] Our research confirms this: only 42 percent of PMOs said high-priority strategic initiatives at their organization normally received sufficiently skilled personnel, whereas just 32 percent said they received the right number of staff personnel to carry out projects.

Additionally, successful PMOs take part in the formulation of strategy. The insight they gain from this enables them to guide the prioritization of

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strategic initiatives and ultimately increases their chance for successful implementation.

Organizational support of the PMO starts with clear direction, governance and support. As noted in *Effective Project Management Offices: An APQC Best Practices Study*, "at best-practice organizations, there is a well-defined, clear governance structure and established roles between the PMO and the leadership team." PMI's research on PMOs shows that two out of five PMO leaders cite lack of direction and governance as the reason the value of their PMO is not being fully realized. While many PMO leaders believe that a key to increasing the effectiveness of their office includes a better understanding of project management throughout the organization (43 percent), there is a lack of awareness of the benefits of the PMO (30 percent).

PMI's research indicates that 49 percent of low-performing PMOs described their organization as "accepting of project management, but projects are executed inconsistently with poor completion rates and inefficient resources." On the other hand, just four percent of high-performing PMOs agreed that description applied to their organization.

As noted previously, project alignment is vital to contributing to the business value of an organization's activities. High-performing PMOs are twice as likely as low performers to be involved in the early stages of strategic management, including the formulation of the strategy and the identification and prioritization of strategic initiatives (Figure 5).

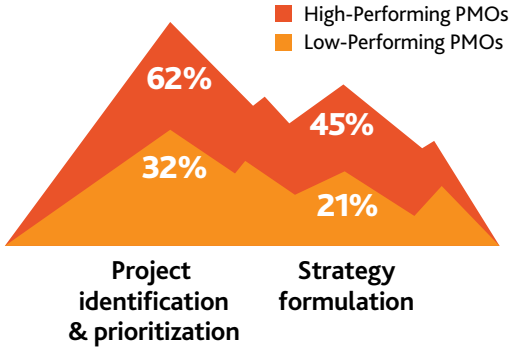

Figure 5: Strategic management processes with which PMO is routinely involved.

In some cases, there is a link between strong PMOs and their access to top-level management: high performers are almost twice as likely to report directly to the chief executive—27 percent compared with 15 percent of low performers.

Forrester Research's 2011 report *Are You Ready to Transform Your PMO?* also demonstrates the need for a stronger linkage between the PMO and senior executives: "PMOs that have been able to bring change report directly into senior management. The most successful PMO leaders we interviewed report to C-level executives, which gives the PMO authority to enforce changes as well as accountability for supporting practices that drive company success."[7]

CONTINUALLY EVALUATE PMO PERFORMANCE

Staying true to the goals of a project or program has always been a key element of success, but scope creep and new priorities not aligned to strategic goals can skew projects off-course. It is therefore important for PMOs to evaluate performance, be self-critical and assess work in the context of the organization's overall success. This consequently reinforces the business value of the PMO and helps senior managers understand the contribution being made.

PMI's research supports this approach: three-quarters of PMOs carry out fundamental checks by tracking their progress and filing reports either weekly or monthly. Key performance criteria for these reports tend to cover a variety of critical components including project delivery versus schedule evaluations (74 percent) as well as customer feedback evaluations (67 percent) and cost reviews (63 percent).

Overall, high-performing PMOs are routinely involved in results monitoring and assessment (Figure 6). Moreover, 44 percent of high-performing PMOs measure themselves by criteria other than simply project metrics compared to only 32 percent of low performers who do so.

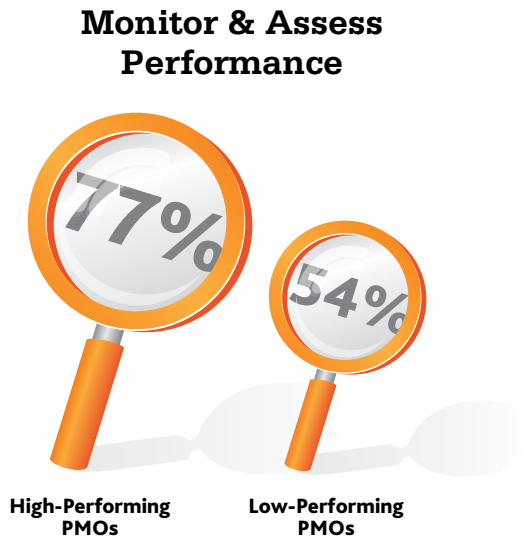

Figure 6: Percentage of high-performing PMOs that routinely monitor and assess results compared to low-performing PMOs.

How successful PMOs evaluate their progress is evident from the methods used by high performers:

- Conduct project owner feedback evaluations: 61 percent of high performers routinely do this compared to 33 percent of low performers
- Seek feedback from other stakeholders: again, 60 percent of high performers do this, whereas only 41 percent of low performers engage with their stakeholders.
- Seek feedback from customers: while only 58 percent of low performers sought such crucial feedback, 76 percent of high performers considered this as part of their evaluation process.

High performers are also far more likely to make basic evaluations of the project. Eighty-six percent looked at project delivery versus the original schedule (compared with 68 percent of low performers) and cost versus the original budget (74 percent, compared with 58 percent of low performers).

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High-performing PMOs routinely interact with each other within organizations to ensure consistency and the alignment on delivery of goals. Separate research by PMI into the relationship between high-performing departmental PMOs and their enterprise PMOs revealed that 49 percent of high performers often consulted the EPMO over risk assessments, whereas 45 percent communicated to realign or prioritize the portfolio. Low performers reported only 28 percent and 29 percent, respectively.

The figures also revealed that high-performing PMOs routinely provide performance reporting and performance management, including assessment of key metrics and KPIs, compliance and financial management. Additionally, high performers are much more likely than low performers to routinely look for ways to incorporate process development and improvement.

Such evaluations charting whether a project has come in on time and on budget were found to be fairly standard, but high-performing PMOs were also more likely to assess project quality and collect feedback from the project owner (61 percent) than low performers (33 percent). As noted in *Are You Ready to Transform Your PMO?* by Forrester Research, "practices such as polling key stakeholders to find out what's important to them and coaching project managers to set metrics at the start of each project enables the PMO to get a realistic view of portfolio and project progress as well as how effectively the process is working."

Providing this information to senior executives reinforces the value the PMO offers the organization and also promotes transparency. *Changing Change Management, A Blueprint That Takes Hold* by The Boston Consulting Group (BCG) stresses the importance of this transparency: "It has to be easy for leaders to get clear operational insights so that they can respond quickly – before targets are missed – making necessary course corrections across the range of change activities by adjusting critical allocations of resources, time and their own attention."[8]

Another report by BCG, the 2013 report *Strategic Initiative Management: The PMO Imperative,* strongly attributes this to the well-positioned PMO in an organization: "With the initiative roadmaps having been rigor-tested, the PMO well positioned, its role clearly understood, and the right processes established for gauging progress against upcoming milestones and objectives, strategically aligned PMOs provide the means for the business managers tasked with delivery to provide senior executives the

information they need – and only that information – with enough time to make course corrections and ensure that the initiative gets delivered in terms of both impact and timing."[9]

High-performing PMOs know the importance of assessing their performance continually. Assessing performance **and** reporting out the results reminds senior management of the value the PMO brings to the organization. Reporting on project-specific metrics is standard, but successful PMOs go beyond this by assessing project quality and by soliciting feedback from key stakeholders. And they do not stop there. They use the information they collect to continuously improve their practices, which encourages efficiencies and drives successful strategy execution.

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■ EVOLVE AND IMPROVE THROUGH KNOWLEDGE MANAGEMENT AND CHANGE MANAGEMENT

Results of continual assessments of projects, programs and portfolios need to be provided to senior executives in order for organizations to transfer valuable knowledge gained with each strategic implementation. However, according to the Economist Intelligence Unit's *Why Good Strategies Fail: Lessons for the C-Suite*, "Only 40% of survey respondents say their companies are 'good' or 'excellent' at feeding back lessons from successful implementation into strategic planning, and just 33% when it comes to unsuccessful ones. Worse, 33% have no method for doing so, and most companies rely on informal ones—such as an overlap between those who engage in formulation and those who take on implementation." Since learning and improving is a key aspect of creating a high-performing PMO, a commitment to knowledge management and change management improves processes and ensures future optimization.

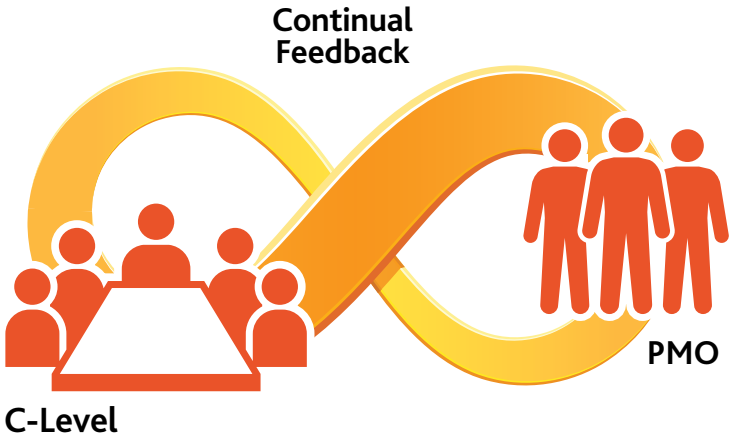

Figure 7: Success comes from ensuring continual feedback between those formulating strategy and those implementing strategy.

Findings from a recent Forrester Research report *Map Your Journey to the Future with Next-Generation Portfolio Management* corroborates this: "Feedback loops, when they exist, provide information about team progress, risk, product quality, measures of application health, and the degree to which products, capabilities and services satisfy business needs. The lack of transparency into the demand-to-delivery cycle causes companies to toll away efficiently on low-value work rather than focusing

on being effective—doing the right work at the right time. Business change happens too quickly and continuously for planning to remain a discrete exercise done annually and reconciled quarterly. Business … leaders need to continuously evaluate opportunities based on changing market conditions and internal capacity (feedback loops) and compare alternatives in order to optimize outcomes."[10]

All strategic change in an organization happens through projects and programs. High-performing PMOs on the whole have a greater commitment to learning and improving their approach to successful project and programs. They are significantly more likely to focus on areas of responsibility that are not typically considered the primary or secondary focus of the PMO, such as knowledge management and organizational change management.

A focus on knowledge management ensures that there are practices in place to transfer the insights and experiences of a team working on strategic initiatives with other teams throughout the organization facing similar challenges or opportunities. Collaboration is essential to making this work effectively. High-performing PMOs know this, because approximately 65 percent of high performers regularly communicate lessons learned and 59 percent consider the impact of collaboration on projects. This compares with only 49 percent and 40 percent of low performers, respectively. And as highlighted in PMI's *Pulse of the Profession™ In-Depth Report: The Essential Role of Communications*, messages need to be tailored to stakeholder groups. PMOs need to need to speak the language of the C-Suite to show their value and to ensure alignment with objectives.

Successful execution of strategy also requires emphasis on organizational change management. A lack of change management skills are the biggest barrier to successful strategy implementation, according to 38 percent of PMOs. High performers are committed to understanding key factors of successful change such as communications (69 percent versus 54 percent) and stakeholder satisfaction (68 percent compared with 44 percent).

High-performing PMOs understand that sharing insights and experiences with others in the organization improves the value the PMO bring to the business. Also critical to success is a commitment to the capabilities needed to drive the organization from the current to future state.

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CONCLUSION

PMOs are still maturing.

High-performing PMOs—those with the greatest force behind the completion of successful projects —are perceived as an integral part of strategy implementation. They are given a set of specific priorities and are tasked with making projects work in a way that complements business goals. They have support, both financial and in the form of skilled employees, and are asked to improve with each project by learning from their mistakes. Our research confirms that PMOs equipped with a high level of decision-making authority, as well as influence at the C-suite level, are much more effective than those operating at a lower level and lacking the proper resources.

Effective organizations are often those with confident PMOs that are self-critical and prepared to hear feedback—positive and negative—from stakeholders, and that are keen to act on advice to continually improve the processes that underpin success in project and program management and therefore drive business results.

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ABOUT THIS REPORT

Research for PMI's *Pulse of the Profession™ In-Depth Report: The Impact of PMOs on Strategy Implementation* was conducted in July 2013 among 533 PMO leaders who have final decision-making authority for their PMO.

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1 PMI's Global Executive Council is a community of decision makers, subject matter experts and influencers who believe that shared learning, along with program and project management, can bring about real change and improve business results. The Council contains representatives from approximately 80 globally recognized and influential organizations, ranging from financial institutions and IT to aerospace, defense and energy.

2 Deloitte Consulting. *Transforming the Program Management Office into a Results Management Office.* 2009.

3 High-performing PMOs are those that achieve 80 percent or more projects on time, on budget and meeting original goals.

4 Low-performing PMOs are those that achieve 60 percent or fewer projects on time, on budget and meeting original goals.

5 APQC (American Productivity & Quality Center). *Effective Project Management Offices: An APQC Best Practices Study.* 2013.

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