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Unlocking PMO Profitability

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The potential benefits of a project management office (PMO) are numerous and well-documented. However, many of the benefits never materialize. Take a look at PMOs over the years and you will see that many have restructured, dissolved, or constantly had to justify their existence during both economic downturns as well as high-growth periods. This is evidence enough that PMOs are not yielding demonstrable positive financial results. This churn often causes years of frustration for both the PMOs and the projects and departments they serve. Changing the way in which the PMO is chartered, works, and is perceived within an organization can ensure that it offers plentiful advantages for the entire organization.

Two Problem Scenarios… And Strategies to Solve Them

One: The PMO is spawned by an executive with a *big* problem

Let's consider this example: a client forms a PMO to salvage a huge contract with a customer. A very large project lags, causing late deliveries and missed expectations all around. Department staff is not completely honest with the customer, hoping that they will somehow be able to 'catch up.' They fall further behind and an executive is forced to intervene. Experienced senior project managers are brought in to assist with the problem, turn around customer expectations, and evolve communication and estimation processes within three months. In another four months, the project managers turn the projects back over to a grateful department.

The senior project managers who saved the day wonder, "Now what? We had unrestricted executive access, some of the best people across the organization loaned or transferred to our projects, and spent tens of thousands of dollars on training, equipment, and process improvement. Results were great. Now we can't get a phone call returned from a director outside the PMO or any attention to the best practices we just proved are necessary to keep projects out of the red zone." Three of the four project managers are let go or quit within the next six months along with half of the PMO staff of 20.

This example is not just for illustration – it is happening in organizations all across the country every day. If the PMO is helpful in solving the big problem, then PMO staff members must assume other roles to continue to justify their existence. When PMOs define their own course, the high-percentage outcome is stagnated by over-regulation and process. It does not take long for your PMO to lose power and possibly be disbanded.

Strategies to remain financially viable:

- Always take on the *big* problems. Put the PMO on each issue as a fix-it or turnaround weapon.
- Key deliverable leave-behinds should include significant process improvements that equip your internal customers with tools they didn't previously have that make them more successful going forward.
- Processes used should include mentoring and training key people in the problem domain so that the fixes the PMO put in place 'stick.'
- Help the involved departments win their battles, shore up their defenses and then move on to the next *big* problem.

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Two: The PMO is spawned by one or more executives who want more visibility or compliance via governance efforts but don't really want lasting change

Let's look at another example: a large organization takes a hit in their most recent audit for compliance in regards to Sarbanes-Oxley and internal policy governance requirements, which affects the organization's financials. The projects in violation include IT projects as well as others. Several direct reports of the COO band together to 'review the situation' that a now out-of-favor peer has gotten their department into.

They recommend many process changes at a high level that go something like this, "They should have done this, this, this, and that." No one considers or estimates the amount of effort (person hours), training or persuasive change management required to move the entire staff to a phase-gate approval process. (A phase-gate approval process requires that at the end of every phase, the project manager prepares a project status report and submits it to senior management to get approval to move on to the next phase of the project.) A project is chartered, training is authorized, tools are purchased and installed (not implemented, just installed), and a set of directives comes down to the PMO, not the departments, to get cracking.

At this point, department heads and their direct reports begin a campaign to undermine PMO authority which is quickly degrading. Eventually, the PMO is disbanded and the PMO director is fired for "not being able to work with his peers." The organization's compliance is upgraded from a complete failure to spotty (at best), which requires a good deal of convincing.

Financially, a PMO tasked with making other departments comply with vague or second-hand demands is destined to fail. PMOs in this position can be misused as merely lip service providers for governance coverage required by Sarbanes-Oxley, FDA, and other regulatory, investor and customer requirements.

Strategies to remain financially viable:

- Show that complying with executive mandates is faster and cheaper with the PMO than without.
- The PMO should be the leverage point and path of least resistance to complying with executive directives, not the source of those directives.
- PMO staff effort should not be billed back to the department. This will ensure that PMO resources are welcomed and not shunned.

Showing PMO Value

The difficulty in demonstrating real value from the PMO is twofold. First, traditional financial measurements of PMO success do not usually provide immediate, tangible benefits. There are many simple metrics that can be used to show the number of projects being completed on time and within budget. However, this data can be misleading. A possibly misconstrued metric would be, "we have never brought a $10 million dollar project in on time or within budget." On the surface, that may sound irresponsible. In reality, it is due to an unrealistic plan and lack of deeper collaboration with project sponsors, executives and teams on all of the project's dimensions, which are more than just time and money.

Second, the assigned role of the PMO in a given organization might not be appropriate, and can ultimately serve as an impediment to the execution of projects if not employed correctly. As seen in the second problem scenario above, PMOs that act as a regulatory force without clear directives and sponsorship from senior executives only make the project manager's job more difficult.

How can you use your PMO in a way that maximizes its potential and improves your organization's ROI?

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Making It Work

The groundwork for a successful PMO actually begins at the top. A PMO requires sponsorship from upper-level management (read: C-suite level executives) in order to build and maintain a presence across the organization with the flexibility required to address various important project management issues. Allowing the PMO to do its job with executive backing will empower the PMO to address widespread issues quickly and effectively.

There is no set-in-stone way to implement a PMO. Rather, it should be organized and supported in ways that address the organization's specific issues. When considering where to go with a PMO, an organization should ask the simple question, "What problems prompted the creation of the PMO in the first place?" Assign the PMO to those tasks, and extend its reach as necessary to enable smooth operations.

There are three metrics commonly used to determine the effectiveness of a PMO at any given time. These are:

- Accuracy of cost estimates: How close is the final cost of the project to the initial budget?
- Accuracy of schedule estimates: How long did the project take to complete in comparison to its original schedule?
- Stakeholder satisfaction: Overall, how happy were the stakeholders with the final project and their relationship with its developers?[i]

Improvement in each of these three categories is a good indicator that the PMO is working smoothly and to the best financial interest of the organization.

As more and more projects are supported by the PMO, specific patterns in project execution will emerge and its predictive accuracy will increase. In this way, the PMO is constantly self-improving and will eventually become a cost-saving nexus of efficiency within your organization.

About the Authors:

Darrel Raynor, PMP® is a senior technology executive, consultant and turnaround specialist with over 20 years leadership experience streamlining operations, systems, people and projects. He increases margin and profit, and decreases organization friction internally and externally with customers, vendors and partners. He is author of the forthcoming book, "Agile & Integrate Project Management" and writes The Management Advisor column to help raise readers' effectiveness. He holds the Project Manager Professional (PMP) certification and an MBA in Information Systems, Managing Advanced Technologies from Golden Gate University in San Francisco. *PMP is a registered trademark of Project Management Institute in the USA and other countries.*

Curt Finch is the CEO of Journyx. Since 1996, Journyx has remained committed to helping customers intelligently invest their time and resources to achieve per-person, per-project profitability. Curt earned a Bachelor of Science degree in Computer Science from Virginia Tech in 1987. As a software programmer fixing bugs for IBM in the early '90's, Curt Finch found that tracking the time it took to fix each bug revealed the per-bug profitability. Curt knew that this concept of using time-tracking data to determine project profitability was a winning idea and something that companies were not doing – yet… Curt created the world's first web-based timesheet application and the foundation for the current Journyx product offerings in 1997. Curt is an avid speaker and writer. Learn more about Curt at http://journyx.com/company/curtfinch.

[i] Santosus, Megan. (2003). "Why You Need a PMO." http://www.cio.com/article/29887/Why_You_Need_a_Project_Management_Office_PMO_?page=2&taxonomyId=3198

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