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Why You Need a Project Management Office (PMO)

– Megan Santosus, CIO

July 01, 2003

For years, IT departments have struggled to deliver projects on time and within budget. But with today's emphasis on getting more bang for the buck, IT has to rein in projects more closely than ever. That challenge has led many to turn to project management offices (PMOs) as a way to boost IT efficiency, cut costs, and improve on project delivery in terms of time and budget.

While not a new solution, the trend toward implementing PMOs to instill much-needed project management discipline in IT departments is spreading fast. "More people lately have been talking to me about PMOs than they have in the last 10 years," says Don Christian, a partner at [PricewaterhouseCoopers](#). PMOs can help CIOs by providing the structure needed to both standardize project management practices and facilitate IT project portfolio management, as well as determine methodologies for repeatable processes. The Sarbanes-Oxley Act—which requires companies to disclose investments, such as large projects, that may affect a company's operating performance—is also a driver, since it forces organizations to keep closer watch on project expenses and progress. W.W. Grainger, an industrial products distributor, has a PMO that "enables us to complete more projects on time and on budget with fewer resources," says Tim Ferrarell, senior vice president of enterprise systems.



But PMOs are no panacea for project challenges, including battling today's tepid business climate. For one thing, there is no uniform recipe for success—it's important that the PMO structure closely hews to a company's corporate culture. PMOs also won't give organizations a quick fix or deliver immediate, quantifiable savings. And companies with PMOs report that they don't necessarily yield easy to use cost-saving benchmarks and performance metrics. In a survey conducted by CIO and the Project Management Institute ([PMI](#)), 74 percent of respondents said that lower cost was not a benefit of their PMOs.

However, survey respondents still reported positive benefits from the formation of a PMO, even if quantifiable ROI is elusive. Out of 450 people surveyed, 303, or 67 percent, said their companies have a PMO. Of those with a PMO, half said the PMO has improved project success rates, while 22 percent didn't know or don't track that metric, and 16 percent said success rates stayed the same. There is also a strong link between the length of time a PMO has been operating and project success rates: The longer the better. While 37 percent of those who have had a PMO for less than one year reported increased success rates, those with a PMO operating for more than four years reported a 65 percent success rate increase. The top two reasons for establishing a PMO, according to the survey: improving project success rates and implementing standard practices. In a finding that indicates PMOs' importance, a survey-leading 39 percent of respondents said the PMO is a strategic entity employed at the corporate level, meaning it sets project standards across the enterprise and is supported by upper managers.

There are two basic models of PMOs: one that acts in a consulting capacity, providing project managers in business units with training, guidance and best practices; and a centralized version, with project managers on staff who are loaned out to business units to work on projects. How a PMO is organized and staffed depends on a myriad of organizational factors, including targeted goals, traditional strengths and cultural imperatives. When deployed in line with an organization's culture, PMOs will help CIOs

deliver strategic IT projects that satisfy both the CFO and internal customers. Over time—and CIOs should allow three years to derive benefits—PMOs can save organizations money by enabling better resource management, reducing project failures and supporting those projects that offer the biggest payback.

What a PMO Can Do

At transportation company Schneider National, a PMO provides the foundation for eventually doing portfolio management, according to Mark Mullins, vice president of finance for IT. And at [Oregon Health & Science University](#) (OHSU), CIO John Kenagy launched a PMO to help his 350-member IT department improve its project management acumen. "Doing a large project takes a village of people, and we don't want to approach each project as if starting from scratch," Kenagy says.

But while PMOs vary in terms of size, structure and responsibilities, Curtis Cook, president and CEO of consulting company Novations Project Management in Atlanta, says CIOs can expect PMOs to function in the following seven areas.

• Project support: Provide project management guidance to project managers in business units.

• Project management process/methodology: Develop and implement a consistent and standardized process.

• Training: Conduct training programs or collect requirements for an outside company.

• Home for project managers: Maintain a centralized office from which project managers are loaned out to work on projects.

• Internal consulting and mentoring: Advise employees about best practices.

• Project management software tools: Select and maintain project management tools for use by employees.

• Portfolio management: Establish a staff of program managers who can manage multiple projects that are related, such as infrastructure technologies, desktop applications and so on, and allocate resources accordingly.

Notice that Cook doesn't mention cost savings. While companies entertain a variety of factors for starting a PMO, most proponents agree that cutting IT costs or reducing the number of projects by a set amount should not be among them. PMOs can certainly lead to reduced expenses and fewer projects, but the first motive for creating a PMO is to deliver strategic IT projects with more consistency and efficiency. At Sun Life Financial's American subsidiary, CIO Jim Smith says his company's PMO was launched five years ago primarily "to implement the kind of discipline and project management processes required by the Y2K crisis." The PMO relies on three metrics to determine its effectiveness: accuracy of cost estimates, accuracy of schedule estimates and project stakeholder satisfaction. By all measures, it is a success; from 2001 to 2002, those metrics improved 25 percent, 31 percent and 9 percent, respectively.

Darrel Raynor, managing director at project management company Data Analysis & Results, says PMOs that take on responsibility for resource allocation can improve employee productivity. "By having oversight to all projects and personnel, a PMO can assign the best people to priority projects and keep their attention focused on that project," he says. Multitasking on several IT projects doesn't work, Raynor says, adding that productivity drops every time an employee switches from one task to another. By eliminating multiple assignments, PMOs can boost productivity while ensuring that priority projects get the most attention. That's the case at Grainger. "We have about 400 people in a centralized IT department, and one of the key benefits is that we're allocating the majority of our resources to the highest priority projects," says Ferrarell.

PMOs can nevertheless deliver a return in three to six months by providing the visibility needed to cancel, postpone, or scale back unnecessary or less strategic projects, says Raynor. At diversified technology services company Schlumberger, Project Office Manager Vincent de Montmollin says the PMO saved more than \$3 million by reducing the number of small projects from 233 to 13.

It's Hard to Measure Success

But Schlumberger's results aren't typical. For survey respondents, improving project success rates is a top goal, yet getting metrics that prove that PMOs are working takes time. In the CIO/PMI survey, 42 percent of companies with PMOs less than 1 year old didn't know or do not track success rates. Only 22 percent of companies with PMOs older than five years said the same. It's inherently difficult to pinpoint project success rates for PMOs less than 3 years old simply because there's no track record of completed projects. Even if CIOs can determine cost savings or success rates, benchmarking results against other organizations isn't a reliable gauge of progress because so many variables factor into the

success of a PMO. "To justify the existence of a PMO, companies can build a business case with relative ease," says [Robert Handler](#), vice president of Meta Group's enterprise planning and architecture strategy service. "Yet people want a good quantitative number, and it's difficult to have that silver-bullet ROI that's applicable in all cases." For Schlumberger's de Montmollin, the biggest benefit of the PMO—giving the CIO the status and financial details of all the company's IT projects—isn't something he can quantify.

One relatively quick metric to come by is customer satisfaction among internal end users. Burlington Northern Santa Fe Railway (BNSF) scores customer satisfaction numbers on completed projects and tracks ongoing activities quarterly. Since the PMO was instituted, these customer satisfaction scores have been consistently improving. Jeff McIntyre, BNSF's assistant vice president of technology services, says the company is struggling with other metrics that could peg project improvements directly to the PMO. "No two projects are alike, so it's difficult to do comparisons," he says. In addition, BNSF sent about 40 percent of its development work offshore, so it's hard to attribute specific results solely to the PMO, says McIntyre. Yet BNSF is pursuing harder metrics; technology services is working on a Balanced Scorecard that will try to nail down measurements during the next year that paint an accurate picture of the PMO's effect on the bottom line as well as on processes and learning.

To create a PMO that is a good cultural fit, Handler and others recommend starting out with well-defined pilot projects that rely heavily on input from project managers in the business units. At OHSU, Project Management Officer John Kocon concurs. "You have to really understand the culture, look at industry standards and best practices, and tailor them to the organization," he says. "There's some give and take with project stakeholders who may resist doing things in a prescribed way."

To overcome such resistance, Kocon enlists support among senior managers. Others involved with PMOs say that senior management must be involved—either in terms of sponsorship or a direct reporting relationship—if PMOs are to be effective.

The Lines of Authority

To improve the chances of delivering quantifiable results, CIOs might be tempted to create strict PMOs that wield unwavering power over project management. People who have experience with PMOs caution against the tendency to create an entity that is primarily administrative, with roles centered around either approving and rejecting projects, or auditing projects for compliance to processes and metrics. "A PMO has to be instituted in a way that doesn't fly in the face of the culture," says Handler. A PMO that is too bureaucratic or rigid in terms of time tracking and the use of project management tools may reek of Big Brother. At [The New York Times Co.](#), a PMO founded to tackle IT issues surrounding Y2K was disbanded in January 2000 once it completed its mission. In mid-2000, the publishing company launched a virtual PMO with a decidedly different approach. The first PMO was "centralized with an iron fist," says Vice President and CIO Michael Williams. "Every task was reported, which was fine for that exercise, but it really wouldn't work in our culture. After Y2K, we adapted a new PMO to our collaborative culture." The current virtual PMO offers project management guidelines via an intranet.

The history of the PMO at The New York Times demonstrates how important it is to decide up front what kind of PMO best suits your organization, whether consultative or centralized (see "How to Start a Project Management Office," this page). Raynor of Data Analysis & Results says the consulting model—where the PMO provides ongoing support for project managers in business units—works well for organizations seeking either small gains in efficiency, minimal startup risks or both. "The consulting model fits into an organization's continuous improvement plans," he says. At The New York Times, Project Management Director Janet Burns is the sole full-time employee of the project management office; her role is to provide project managers with all the information they need to run a project without contacting her personally.

That's the case at OHSU, where the PMO's role as a facilitator lends itself to incremental improvements. "We're not looking for dramatic changes because they take too long," says Kocon.

The centralized approach, typically marked by hands-on control over projects, is most effective at organizations where the PMO regularly interacts with senior executives and has the power to cancel and prioritize projects. At risk management company Assurant Group, 20 project managers work in the PMO under the ultimate direction of former CIO John Owen (who is now the COO). Using well-defined software development and project management methodologies, the PMO works with business units on every aspect of project management—from defining initial requirements to post-implementation audits. Maintaining consistent processes across the organization enables Owen to break down projects into manageable components and thereby minimize failures. Centralized PMOs have a higher risk but also promise bigger benefits. In four years, Assurant's PMO has resulted in a 97 percent success rate based on projects meeting schedules and budgets.

Responsibilities of PMOs range widely, from providing a clearinghouse of project management best practices to conducting formal portfolio management reviews. A PMO's oversight need not be limited to project development or even IT. At Burlington Resources, a Houston-based oil and gas company, Vice President and CIO Rick Diaz gave the PMO responsibility for coordinating and tracking both projects and services. The PMO monitors IT's performance on service-level agreements. "This is unusual, but it gives me a single point of control and coordination that works for us," Diaz says.

Coming up with a PMO that works for any given organization is an exercise in both customization and patience. When it comes to establishing a PMO, there are no road maps to follow, benchmarks to shoot for or metrics against which to measure. The most effective PMOs are those that reap improvements over time and continuously push the IT department to improve on its performance.

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