A Forrester Consulting
Thought Leadership Paper
Commissioned By Project
Management Institute (PMI)
November 2013

Strategic PMOs Play A Vital Role In Driving Business Outcomes

A Part Of PMI's Thought Leadership Series

FORRESTER®

Table Of Contents

ABOUT FORRESTER CONSULTING

Forrester Consulting provides independent and objective research-based consulting to help leaders succeed in their organizations. Ranging in scope from a short strategy session to custom projects, Forrester's Consulting services connect you directly with research analysts who apply expert insight to your specific business challenges. For more information, visit forrester.com/consulting.

Executive Summary

In today's rapidly changing business environment, project management offices (PMOs) struggle to provide adequate support for shifting priorities and faster delivery cycles. To remain viable, they must evolve from a reporting and prioritization function focused solely on tactical project management execution to enabling leaders to develop and implement strategies that drive better business outcomes. Building transparency and consistency into portfolio planning, designing innovative execution methods, and driving learning and development, high-performing strategic PMOs are empowering their executives to act with greater agility and achieve better business outcomes.

In July 2013, Project Management Institute (PMI) commissioned Forrester Consulting to evaluate strategically aligned PMOs. To further explore this structure, Forrester developed the hypothesis that strategically functioning PMOs that are closely connected to executive management play an active part in strategic planning and support execution through consistent, but flexible, execution practices. These PMOs can positively influence business results and deliver value at every level of planning and execution and are seen as a critically important part of achieving differentiation in the market and sustaining business growth.

To support the hypothesis, Forrester conducted in-depth interviews with 40 PMO leaders and executives. It was clear that PMOs strategically aligned with executive management played a direct part in enabling their companies to obtain successful business outcomes. These PMOs put practices in place that supported revenue growth and increased margins through strategic project selection and delivery. The executives interviewed specifically cited the PMO's role in facilitating portfolio analysis and developing maturity in project management to deliver products and services to their customers more successfully, reduce operational costs, and increase employee satisfaction. By investing in a strategically aligned PMO, every company saw distinct benefits; two-thirds of the companies interviewed saw improved performance in less than six months and realized the value of investing in the PMO within two years.

KEY FINDINGS

Forrester's study yielded four key findings about successful PMOs:

› **They have a seat at the executive table.** Strategic results require strategic positioning. PMOs that are highly effective in driving business growth report to varying levels of executive management, ranging from senior vice president to the C-level, and are regarded as members of executive management. Champions are strategically positioned, too. The majority of the leaders interviewed have highly visible sponsorship at the C-level.

› **They are a vital part of the strategic planning team.** Since portfolio management is a core competency, PMOs actively participate in strategic planning and help shape strategy by providing feedback to executives about performance, labor costs, and customer feedback.

› **They embrace core competencies.** Excellence in project management remains a critical capability for PMOs. The most successful organizations recognize the specific role of the project manager and build significant learning and development programs to mature project management skills.

› **They use consistent objectives across industry and regions.** Customer-facing or business-facing, strategic PMOs share the same objectives: Drive success through alignment with business stakeholders and operational excellence. Meeting these objectives is differentiated by such factors as orientation, region, and culture.

Business Agility Drives A Shift In Focus For Today's PMOs

Forward-thinking companies are quickly realizing that "just getting the job done" won't prepare them for sustained business growth. Business success today requires organizations to deliver products and services that keep their customers happy while always innovating to expand their markets.

Historically, PMOs focused on overseeing the tactical activities that supported the development and implementation of projects. Today's executives realize that to stay ahead of the competition, they must also seize new opportunities while controlling unplanned risks — this requires a different approach to planning, building, and delivery. Sustaining consistent levels of project success takes more than an organized approach; it requires shifting a company's collective mindset to embrace necessary disciplines while remaining flexible enough to adapt to changes in their business. The companies interviewed categorically stated that they were successful in making the governance and organizational transition because they elevated the role of the PMO. This shift isn't generally organic; a distinct catalyst usually fuels it, such as:

- **A very visible project fails — badly.** When an expensive, strategic project goes awry in a competitive market, it forces an organization to reassess. A third of the companies interviewed pointed to a significant failure as their driver to shift focus.
- **A project goes over budget.** Reducing cost is an underlying driver — project success at higher-than-expected costs reduces profitability and damages customer relationships.
- **A PMO enables the success of a strategic project.** Conversely, another stimulus for change was triumph. The next significant reason for establishing a strategic PMO was to capitalize on the momentum the successful project created.
- **Market competition forces stronger disciplines.** For larger organizations, retaining market share and growing at a manageable level drove them to build consistency so that they could innovate. For smaller companies, the ability to pivot and pursue opportunities spurred them to create a strategic PMO.

FIGURE 1
The Primary Reasons For Creating Strategic PMOs

Source: Forrester Research

"In the space of two years, we had several significant projects go bad — over budget, unhappy customers. We had to change and get disciplined."

— Vice president and PMO leader at a North American-based energy provider

"The market changed significantly, and our product groups were struggling. We had a smaller PMO within IT and it was working, so our CIO showed how the struggles on the product side could be helped with a common project-based philosophy."

— PMO director, global publishing company based in North America

"We are a small manufacturing company in a highly competitive industry. We had to become very strategic in the projects we picked and predictably successful in our delivery to become a viable choice to our customers."

— Director of program management, manufacturing contractor based in Asia

The PMO Mission: "Move The Strategic Needle For The Company"

The PMO leaders and executives we interviewed had a common goal: Enable the organization to grow the business by building a core set of practices that delivered consistent outcomes. With that accomplished, they could look beyond day-to-day operations to new and effective ways of expanding current markets and capturing new ones. To make this possible, PMO leaders had to build a strong foundation while increasing transparency into future capabilities. The responsibilities of PMO leaders were to:

› **Create a clearly defined strategic vision.** Businesses succeed when they deliver the right initiatives at the right time. Through portfolio analysis, strategically aligned PMOs help executives visualize the feasibility of their ideas to create a commonly understood vision supported by a strong execution strategy.

› **Drive business success through consistent delivery practices.** Businesses experience sustained growth through consistent practices that control risk and increase productivity. Successful PMOs build consistency through well-designed approaches that are broadly understood, highly usable, and adaptable to the needs of varying projects. Consistency also expands to standard performance indicators that allow PMO executives to clearly communicate progress, health, and need for action.

› **Enable the organizational change needed for growth.** Strong PMO leaders understand that cultural change is difficult in the best of circumstances and that through communication, which includes both education and evangelism; they build buy-in for greater discipline and accountability. Their message is consistent: Help their company understand the nature of the change, why it's occurring, and how it will benefit them in the long run. Most importantly, they understand that managing the subtleties of corporate and regional culture is essential for building sustainable practices that can be optimized over time.

› **Playing an active role in brand ownership.** Strategically aligned PMOs view the strength of the support they provide as directly affecting their company's brand. Just getting the job done will not differentiate a company in its market — nor will failing to meet objectives, which can damage a company's brand. A company must continually strive for excellence if it is going to gain and retain customer loyalty and win new business.

FIGURE 2
Strategic PMO Mission: Enabling Business Success

Source: Forrester Research

"Our leaders are great thinkers. We need to take those ideas, make sure they were grounded and able to be executed. The PMO helps us do that."
— President of project services, global construction services provider, based in North America

"Our corporate leadership expects a certain amount of innovation in order to grow our business. We couldn't do that without the insight and controls the PMO brings."
— Senior portfolio manager, global pharmaceuticals company headquartered in Europe

"We were behind the industry and needed to perform more consistently before we could think about catching up. Our PMO brought the transparency and consistency we need to execute more strategically to catch the competition."
— Senior vice president, North American financial services company

Strategic PMOs Face Universal Challenges

Transitioning the PMO to become strategically aligned isn't easy, and each company interviewed is on a path of continuous improvement. Globally, PMO leaders faced similar challenges:

- **Inconsistent assessment of current capabilities.** Lacking consistency across projects and programs, PMO leaders had their work cut out for them to get a firm understanding of current project management capabilities.
- **Lack of a common language.** The absence of a consistent language hindered the assessment of current state of planning and execution capabilities. Words like "value" and "complete" meant different things to different roles.
- **Organizational resistance to change.** Executives were quick to see the value of a strategic PMO; however, despite having inconsistent project outcomes, middle managers and staff initially saw the PMO's processes as overhead.
- **Inconsistent project management expertise.** In almost every organization interviewed, the notion of project management was something additional to everyone's daily job. Only the most visible strategic projects merited a skilled, trained project manager. Most firms had at best a spotty understanding of what it takes to be stakeholders and sponsors of projects.
- **Business environments changing at a rapid pace.** The accelerating rate of business change left line management with little tolerance for perceived overhead. Stakeholders commonly rejected anything but the most pragmatic of practices.
- **Inconsistent data drives reactive strategic decisions.** Lack of a single, central project source-of-truth left project information scattered across the organization. Without a coherent view, executives found it difficult to make objective, fact-based decisions on strategic investments.

"Until we implemented portfolio and project management governance and leveraged a centralized portfolio management tool, we lacked strategic direction and an objective voice to drive strategic project selection."

— PMO director of a North American telecom company

"We had to change the language to change the mindset and then support it by creating capabilities and analytics that would demonstrate the ultimate benefit to our clients."

— Senior vice president of project services, global construction services provider, based in North America

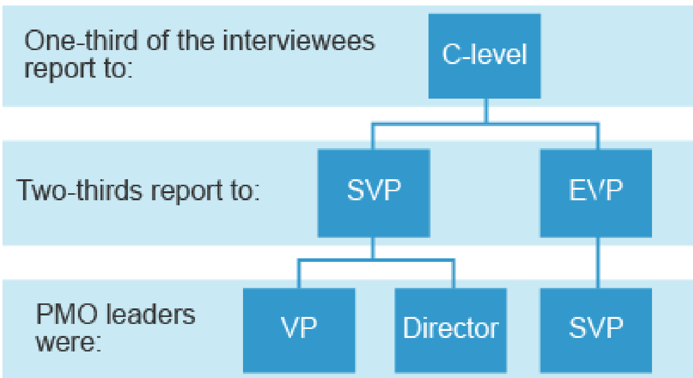
The Road To Strategic Success Starts With Visibility

Successful PMOs were also strategically positioned, named, and championed. Whether they were customer-facing or business/technology-facing, organizations all shared common characteristics:

- **Their PMOs carry a strategic title.** These organizations were usually known as program management offices or enterprise project offices. While their core mission is to build better practices for delivering successful projects, their focus on broader business initiatives enabled them to keep corporate objectives at the forefront.
- **Highest-level executives dictated the need for change.** Each of the companies interviewed noted that their most-senior executives publicly stated the need for the structure of a strategically aligned PMO. The executives supported the creation of the PMO and retained sponsorship, even if the PMO did not report directly to the executive. This visible support provided the recognition that was needed to drive necessary change and enforce needed disciplines to improve execution. In return, the PMO was accountable for delivering demonstrative improvement.
- **They report directly to highest executive levels.** Each successful PMO leader interviewed that reported to the executive level was a senior manager in his/her own right. This position gave the PMO leaders the authority to make

strategic decisions and take accountability for their outcomes.

FIGURE 3
Reporting Structures Set Strategic PMOs Apart



Source: Forrester Research

The Right Approach Makes All The Difference

Processes to transform the PMO to a strategic partner were surprisingly consistent. The focus on outcomes allowed leaders to see what to tackle first. Contrary to our expectations, a top-down approach was not a universal technique — the most successful PMOs made the transformation by:

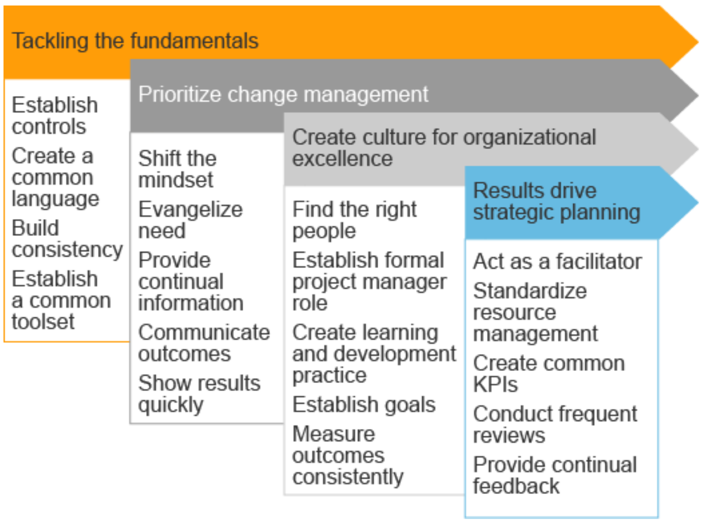
› **Setting a vision while still paying attention to fundamentals.** PMO leaders were quick to set a strategic vision for alignment with executives but knew that they still had to manage day-to-day project blocking and tackling. They assessed the current state to create a baseline to measure improvement and then put the necessary controls in place to create a minimum viable approach (MVP), creating the framework for managing plans, budgets, risks, and reporting, but allowing project managers to determine the actual approach. PMO leaders established common controls for planning and measuring progress, language so that everyone was on the same page, and a tool set to drive greater visibility into project performance.

› **Making change management a high priority.** Many of the companies interviewed were changing quickly and not handling it well; business as usual was code for chaos. The PMO leaders interviewed recognized that they had to be part evangelist, part therapist, and part coach to successfully transition the organization to a more disciplined approach. They sustained it by dedicating themselves to getting fast results and providing continual communication of results to reinforce the change.

› **Creating a culture that embraces organizational excellence.** Smart leaders know that having the right team in place is the differentiator between success and failure. They were successful because they put the right people in place, established project management as a formally recognized role, created a defined career path, and provided everyone in the organization with appropriate levels of learning for their role in projects. This promoted project managers' ownership of the approach and stakeholder accountability.

› **Using gained transparency to make strategic moves.** Managing strategic portfolios with greater efficacy came after the fundamentals were in place and the baselines for performance were established. Designated as facilitators and partners in developing strategy, the PMO and its business partners also shared in the outcome. Executives owned the business outcomes, while the PMO owned the execution and feedback on the portfolio. To do that, the PMOs generally focused on standardizing demand and resource management practices and created common key performance indicators (KPIs) to measure health, progress, and risk. They also instituted monthly reviews, supplying feedback on programs and projects to inform portfolio adjustments.

FIGURE 4
Have Vision But Tackle Fundamentals, Change First



Source: Forrester Research

Successful PMO Leaders Recognize The Effect Of Region And Industry

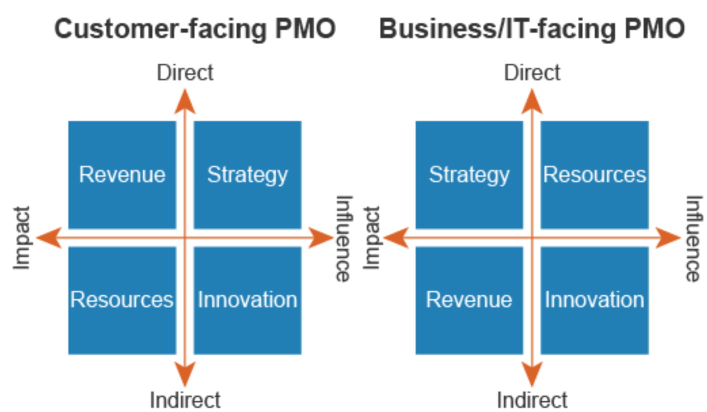
While their processes for the transformation to a strategically aligned PMO were essentially the same, some differences affected PMO leaders' focus and approach (see Figure 5). For example:

› **Customer-facing PMOs directly affect revenue and strategy.** These PMOs operated more as a distinct business unit within their company, having business development, sales, and even human resources functions falling under them. They have specific revenue targets, and before formalizing the role of the project manager, they relied on engineers, construction managers, or developers to manage projects in addition to performing their day jobs. These PMOs were less concerned with resource management and more concerned with sourcing partners. They influence innovation through project performance.

› **Internal PMOs were seen as delivery organizations.** Before their transformation, PMOs had more project managers, but resource constraints were still an issue and had a direct impact on ability to deliver on strategic goals. To prioritize and orchestrate strategic project delivery, PMO leaders placed concurrent focus on project and portfolio management to better orchestrate resources on important projects and programs, thereby resolving the constraints.

› **Regional and cultural differences played an important role.** North American PMOs had greater overall project management maturity, allowing them to focus more on portfolio management in order to drive strategic partnerships via global program management. Europe, the Middle East, and Africa (EMEA) and Latin America (LATAM) prioritized building program and project management maturity to implement strategic initiatives. Asia Pacific-based organizations are experiencing fast-changing market challenges requiring accelerated development of strategic PMOs with strong portfolio management capabilities (see Figure 6).

FIGURE 5
Immediate Business Concerns Impact Focus And Approach



Source: Forrester Research

FIGURE 6
Geographic Differences Also Affected Approach

Source: Forrester Research

"We staffed the PMO with visionaries who could solve problems and were dedicated to creating systems and controls that visibly made it easier to manage projects. We wanted our project managers to be leaders, not just technically competent."

— ePMO director, India-based construction company

"Our business is dependent on successful planning. By partnering with our executives in portfolio planning and constructing the core belief that solid project management will help us achieve our desired outcomes, we were able to redirect our focus on doing more projects for the business. In 2011, we only utilized 70% of our planned budget for new projects, and in 2012, we utilized 102%."

— PMO director, global bank based in France

Using Standard Metrics Made It Stick

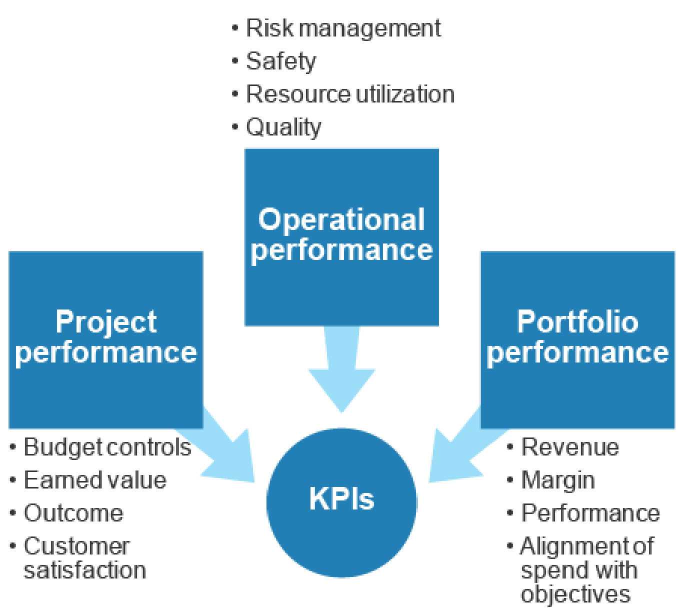
KPIs were the glue that brought it all together. Derived from the controls and systems that they put in place, the PMOs were able to bring new levels of transparency to their executive management and enabled program and project managers improve productivity while decreasing risk. To improve, the PMO leaders emphasized (see Figure 7):

› **Simple is better.** Simple removes room for interpretation and gets everyone on the same page. PMOs used standard measures for financial controls, such as budget variance and earned value, to measure project performance. Good governance was demonstrated through risk and safety measures. Portfolios primarily focused on financial measures such as revenue and margin; performance was measured through alignment with business objectives and delivery cadence.

› **Focus is critical.** PMO leaders were emphatic about defining metrics directly linked to strategic objectives and used them consistently throughout the organization. That way they could develop a handful of key measures that told a complete picture and allowed them to compare performance over time.

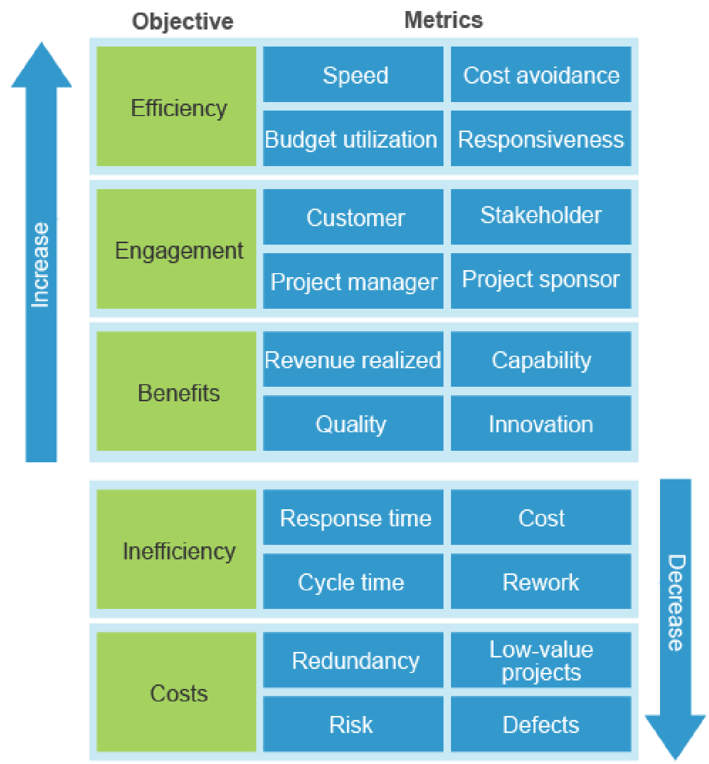
- **The only acceptable KPI is an actionable one.** PMOs were again emphatic that KPIs had to reflect the net result of activities performed over time and reflect current capabilities. Increases in sales and revenue could be directly linked to operational performance and customer satisfaction.
- **Measuring PMO value is difficult but necessary.** One area of ongoing struggle, especially for business-facing PMOs, is measuring PMO value. Customer-facing PMOs can directly tie value to profit and margin; however, internally focused PMOs have to reach sufficient maturity to make those links visible. As they continue to evolve on this journey, they measure the benefits they bring to their project managers through engagement with stakeholders, satisfaction, cost avoidance, and speed.

FIGURE 7
Keep It Simple, Focused, And Actionable



Source: Forrester Research

FIGURE 8
How Strategic PMOs Measure Value To Their Peers



Source: Forrester Research

> *"Velocity was our key metric. We were able to demonstrate that with PMO support, we were able to increase the number of business-critical projects at lower costs. We exceeded our goals in just one year."*
>
> — PMO director, global manufacturing company based in North America

Key Recommendations

Forrester's in-depth interviews with executives yielded several important recommendations:

- **Corporate commitment is essential; pragmatism, speed, and measurable results sustain it.** Having clear executive commitment is a well-accepted best practice. Keep executives supportive by focusing on methods that will enable the business, not stagnate it. By simplifying methods that support how people work while retaining strong governance, discipline will shift from being a burden to becoming a philosophy.
- **Consider elevating the organizational structures.** PMO leaders must have authority to enact necessary change and to collaborate strategically; optimally, PMO leaders should be peers of senior management. If your organization needs to make a significant shift, make the PMO a strategic business unit and task its leader with performance objectives tied directly to the business.
- **Do the upfront work needed for successful change management.** Successful strategic PMOs address the needs of their organizations first and don't underestimate the risk and scale of significant change. Identify key stakeholders, listen to their needs, and consult with critical stakeholders often to gain trust and acceptance. Communicate the potential benefits early and often, and back them up with metrics relevant to business objectives.
- **Get the right people involved on the ground floor and at the top.** Staff the PMO with strategic thinkers who can analyze performance, identify opportunities, and drive change, because they implement only the processes that bring measurable value back to the organization.
- **Invest in a common tool set early to bring transparency to the executive level.** A successful strategic PMO is a combination of people, processes, and tools. Investing in tools that are usable and support how people work pays off in reliable data, enabling early visibility into performance trends to support proactive decision-making.