WHITE PAPER

ALIGN, MEASURE AND WIN: COORDINATING YOUR PPM AND PMO EFFORTS FOR BUSINESS IMPACT

Benefits and uses of Project Portfolio Management (PPM) and the Program Management Office (PMO)

Topics included in this paper

- The role and goals of PPM
- The role and goals of the PMO
- Five major benefits of a coordinated strategy
- How the right PPM/PMO strategy drives business impact
- How to measure PPM and PMO success

Introduction

CHALLENGES:

- UNDERSTANDING THE DIFFERENT ROLES OF PPM AND PMO
- POOR STRATEGIC ALIGNMENT IS A MAJOR DANGER TO PROJECT SUCCESS
- SERIOUS CONSEQUENCES OCCUR TO ORGANIZATIONS WHO FAIL TO ALIGN THEIR PPM AND PMO STRATEGIES

TAKEAWAYS:

- THERE ARE FIVE MAJOR BENEFITS OF A COORDINATED PPM AND PMO STRATEGY
- RISK MANAGEMENT IS A MAJOR OBJECTIVE OF AN EFFECTIVE PPM AND PMO STRATEGY
- MAKE SURE YOUR PPM AND PMO GOALS ARE SPECIFIC, MEASURABLE, ACHIEVABLE, RELEVANT AND TIME-BOUND

Just as there are benefits to implementing a successful Project Portfolio Management (PPM) and Program Management Office (PMO) strategy, there are also consequences faced by those organizations who fail to do so. Perhaps the biggest and most problematic result is that the executive team loses control of how its mix of projects impacts the business in areas like:

- Reluctance to kill projects
- Wrong mix of projects
- Poor strategic alignment
- Resources that are thinly spread
- Project execution suffers

Poor performance in this area can have further negative impact on the business as the executive team becomes reluctant to provide the people, financial and technological resources necessary to fix these issues. Internal politics and culture can become large barriers to adoption and business managers fight to make sure their own projects are not shifted in priority based on data that can’t be trusted.

The problems with an ineffective strategy aren’t just at the top. Program and project teams may resist the adoption of a common approach to managing projects, reporting progress and constructing business cases, especially when they lack a basic knowledge of what constitutes an effective program.

Fortunately, a thoughtful and coordinated PPM and PMO strategy can be used to overcome these challenges and get your organization on the right track.

The role and goals of PPM

Project Portfolio Management is a shift in thinking from traditional project delivery, and challenges the narrow project-by-project orientated focus to planning. Its overarching role is to bring strategic and operational plans together to provide a single view of the organization, helping the business to achieve its business strategy while simultaneously optimizing operational efficiency.

Project Portfolio Management straddles the gap between the projects themselves, the management process and their accountability to the business. Simply put, PPM is dedicated to empowering the business, not just the project process, and it helps the business establish a clear line of sight from the top right down to the individual project layer.

To put this a different way, PPM is not only about ‘doing projects right’; it is about ‘doing the right projects’ and therefore maximizing the contribution of projects to the overall welfare and success of the business. The PPM discipline transcends individual project selection, as it balances the entire mix of the business’ portfolio of projects with long term, short and medium term projects, as well as low-risk and high-risk projects. In addition, PPM provides much needed visibility into failing or ill performing projects before it is too late to react, enabling the business to make subjective and informed ‘go, kill, hold, or fix’ decisions.

The role and goals of the PMO

First, what is the role of the PMO? This can be a contentious question because many businesses view PMOs in very different ways. Typically, however, a PMO has two major roles:

1. To coordinate and communicate on all programs and projects in the enterprise, as well as to be the knowledge center. Addressing the problem of fragmented project information distributed across the business. PMOs act as a means of centralizing and standardizing this information.
2. To support managers in the implementation of the tasks and work packages required to achieve successful project completion. When necessary, the PMO also supports individual project managers in the project delivery process.

However, unlike project management teams, the role of the PMO tends to be much wider. The PMO manages not only project interdependencies, but also project delivery processes, reports on and analyzes the status of project performance (resources, business case, and costs), establishes best practice methodologies and standards and helps the project manager with training templates.

The three most basic goals of the PMO are maximizing the value of the PMO, balancing the project mix and aligning with the organization's strategy. Other goals include: aligning with the firm's objectives, remaining consistent with the organization's culture and values, contributing to a positive cash flow for the enterprise, effectively utilizing the firm's resources (both people and material), making contributions to the firm's current health and positioning the firm for future success.

Five major benefits of a coordinated strategy

There are five major types of benefits to be gained by adopting a coordinated and effective PPM/PMO strategy.

1. **Foster an environment where collaborative decision making is easier and more fruitful.** To make good decisions you need good data – that's why visibility (both strategic and tactical) is so crucial. When you have a good handle on past project metrics, it makes it much easier to predict future metrics (e.g. resource utilization).

   When you have a solid understanding of what is happening in your current project portfolio, you can find out which projects are not contributing to corporate objectives. And as part of the project portfolio management team, it is better for you to discover this than to hear about it from the line of business managers, or even worse, from the executive suite.

   In the area of resource utilization, a good PPM/PMO strategy will help you understand how what you change on the project impacts the delivery of other projects. It will also help you re-prioritize and re-allocate as necessary. And finally, a solid strategy, backed up by the right technology, will allow you to model multiple scenarios to make sure that the projects you add will contribute to corporate objectives and not bog down other projects.

2. **Ability to avoid or reduce your exposure to risks.** Minimizing the risks of individual projects reduces risk in terms of overall business impact. The disturbing reality is that there are many ways that poor project execution can be considered a detriment to the organization, including: financial, governance, resource utilization and misdirected efforts.

   On the financial side, good PPM/PMO policies will help you to calculate the benefits vs. cost of cancelling poor performing projects, as well as identify projects that are not contributing to corporate objectives. The sooner you identify these wayward projects, the sooner you reduce your risks.

   As far as governance risk, the goal is to build an accountability framework that ensures that the right level of compliance is followed through every project lifecycle. PMOs offer early warnings of potential problems in meeting program/project deliverables and reduce program and project cost overruns.

3. **Ability to maximize resource utilization.** The greater degree of visibility we mentioned earlier, both on the micro and macro level, makes it possible for you to

gain the type of control over your projects and resources that is not possible in a non-PMO environment. A centralized approach allows you to reduce your project costs, primarily through a reduction or elimination of duplicated efforts.

Nothing increases the frustration and cost of a project more than skills shortage, especially during peak hours. With the right strategy, you can view overall project demand vs. resource supply and redeploy resources as needed. Since human resources are by far the most costly of implementing projects, this can be a substantial benefit. Likewise, a resource database allows you to quickly find the right resources for each project, keep skills profiles up to date and efficiently manage resource demand, allocations and capability.

4. **Demonstrate value to key stakeholders.** Stakeholders include anyone who has a vested interest in the PMO or individual projects, including: line-of-business managers, project managers, financial analysts and the executive team. A PMO provides a greater level of comfort by allowing transparency into all aspects of project execution and results. An effective PPM/PMO strategy allows relevant stakeholders to have access to the project status and results data they need – without being bogged down by sorting through reams of irrelevant and confusing data.

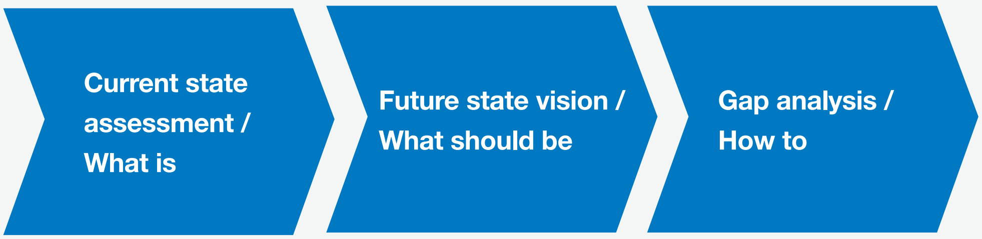
   You can also improve external and internal morale, reduce the time it takes to produce executive and board level reports, and increase buy-in from stakeholders. Remember, it is not the actual value of what you are doing and what you accomplish, but the perception of the value that counts. A well-oiled and functional PMO will eventually prove these perceptions true.

5. **Facilitate repeatable success.** A good PPM and PMO strategy creates an environment that not only enables success today, but also with future project initiatives. While not discounting the skills of the PMO and PPM leadership, the essence of an effective PMO is providing a process framework and technology infrastructure that allows you to continuously meet your business objectives.

   Repeatable success is gained by establishing best practices and proven project management methodologies and enforcing their use throughout the organization. You need to be able to leverage the processes and lessons learned from previous projects and capture this information in the project repository. This allows you to not only use past data, but also real-time data to continually improve your project operations and results. In this way, you will be seen as a proactive, not reactive, organization. And finally, you need to ensure that you have a single version of the truth to enforce consistency in evaluating past projects and guiding the prioritization and execution of future projects.

How the right PPM/PMO strategy drives business impact

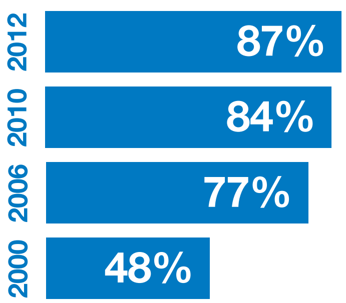
A recurring theme throughout this paper has been the necessity of using the PMO to help achieve strategic organizational alignment. Basically, achieving this alignment is a three step process:



1. **Current state assessment / What is** – Tells you about your organization today and describes the current tasks, responsibilities and outcomes.
2. **Future state vision / What should be** – Describes your organization's mission and vision and describes where you should be over the next three, five and 10 years in regards to market, product and services.
3. **Gap analysis / How to** – This step forms the basis of portfolio management and describes the project strategy and specific projects that have to be completed to achieve corporate goals, including: long-, mid- and short-term and low-, medium- and high-risk.

Organizations are dynamic; they are either progressing or stagnating. And the ones that don't change become uncompetitive and unprofitable. PMOs are designed to facilitate such change. The graphic opposite shows that there is little doubt PMOs are becoming a more important part of the corporate landscape.

Percentage of firms with PMO



Growth in the rise of PMOs reflects their rising importance to companies

Source: The State of the PMO 2012 by PM Solutions Research

The State of the PMO Report also includes some sobering data about project performance:

- 21% of them go over budget
- 31% of them fail to meet their delivery date
- 40% are deficient in delivering on their specifications

To fix this, you have three basic choices:

1. You can outsource the solution
2. You can continue with failing projects
3. You can fix the problem by implementing a PMO solution or refining your PPM/PMO strategy for greater effectiveness.

Smart organizations are choosing to implement strategy number three. As PMOs increase their capability, more of them engage in portfolio management and have project management training programs in place. The trend is to enhance and standardize core project processes as well as drive improvements in resource and capacity planning. Equally important, PMOs are focusing on improving the qualitative aspect of project portfolio management including reporting, analytics and dashboard tools.

How to measure PPM and PMO success

Businesses have typically been guilty of too narrow a focus when it comes to measuring project success – typically measuring against the following criteria:

- When will the project be finished?
- How much did the project cost?
- Is the project delivered to specifications?

However, executives have come to realize that projects are a basis for the future profitability and ultimately success of their organizations. This is why there is a growing interest on the part of the business leaders in how their projects are performing and impacting the bottom line. The PPM and PMO view is much more sophisticated and focuses on these important questions:

1. Do we have the right mix of projects to deliver our strategy?
2. What is the impact on the businesses' resource capability?

3. What is the ROI on our projects?
4. Do we have the right mix of low-, medium-, and high-risk project investments?
5. What resources do we need to complete the portfolio as planned?
6. What are alternative scenarios if the strategy changes?
7. What is the status of each project and program?

So how do we monitor PMO success? Here are some of the benchmarks that are used to evaluate PMO performance:

PMO value benchmarks

PMOs contribute directly to the following performance improvemenmts:

- **Decrease in failed projects** **30%**
- **Projects delivered under budget** **25%**
- **Improvement in productivity** **22%**
- **Increase in customer satisfaction** **31%**
- **Projects delivered ahead of schedule** **19%**
- **Improvement in projects aligned with objectives** **39%**
- **Cost savings per project (% of total project cost)** **15%**
- **Cost savings per project** **$411,000**

Source: The State of the PMO 2012 by PM Solutions Research

It has become obvious that economic factors have caused companies to demand more of their project operations and PMOs have responded by an increased focus on performance – and cost savings. As PMOs gain more attention and visibility at the executive level, their role in strategic functions increases, but so does the pressure to demonstrate added business value.

Service Level Agreements (SLAs) and Key Performance Indicators (KPIs) provide the basis for measuring performance, in objective terms, that are well-documented, known and consistent. SLAs represent firm obligations and tend to look backwards at a point in time, and therefore provide the executive team, line-of-business managers and PMO managers with a lagging indicator. By contrast, KPIs are critical because they represent trends that can be extrapolated to predict future performance, and therefore provide management with a leading indicator.

When developing SLAs it is crucial to make sure that they are designed with all of the factors associated with the SMART acronym: Specific, Measurable, Achievable, Relevant and Time-bound. When you develop your KPIs, you can add Evaluate and Review to the acronym to progress from smart to SMARTER.

SMARTER

Specific	Applies to a clearly definable component of the project that is objective and not open to subjective interpretations
Measurable	The associated metric is objectively derived, from a source other than the project team (software application or standardized reporting)
Achievable	The SLA is well within the promised capabilities of the project team, and does not represent a stretch goal
Relevant	The SLA represents a natural and meaningful outcome of the process that is worthy of being measured and tracked
Time-bound	The SLA specifically cites the rquired measurement and/or completion period
Evaluated	The key indicators need to be measured as they can be effected even though they may not be part of the contract with the supplier
Reviewed	Long term effects and external changes need to be reviewed as changes to the business occur

It is important to define a meaningful set of SLAs as part of the agreement, as well as identifying a limited set of KPIs that should be proactively monitored. We have seen situations where the PMO and project teams are operating in compliance with all of the cited SLAs, but things are still not working. This can occur either when the SLAs are not in alignment with the corporate objectives, or when the KPIs are being ignored. Setting SMART goals is important but using the evaluation and review process can make your team SMARTER and more effective.

Summary

A lack of dedicated focus and poor strategic alignment are a hindrance to many project teams and a detriment to the ability to achieve larger corporate objectives. To answer this challenge, companies have begun to focus on either improving their PPM and/or PMO strategies. While there are many benefits that accrue to the organization that adopts an effective PPM or PMO strategy, these benefits are multiplied when these strategies are coordinated for maximum impact.

The process of coordination starts with carefully outlining the roles and objectives of each initiative and continues with a gap analysis showing the current and desired future states and realistic plan to achieve the desired state. This plan will include the appropriate mix of short-term and long-term, plus high-risk and low-risk projects, utilizing the best blend of corporate resources (human and financial), aimed at achieving strategic corporate objectives. Finally, SLAs are created using the SMARTER acronym, to ensure Specific, Measurable, Achievable, Relevant and Time-bound goals are constantly Evaluated and Reviewed.

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KeyedIn Manufacturing is an ERP system that helps custom manufacturers work smarter so they can increase productivity and bring new products to market quickly, for a distinct competitive advantage. KeyedIn Projects, the company's project management suite, helps businesses and professional services organizations improve everything from project initiation to execution by managing programs based on top-line strategy and delivering profitable projects to the bottom line. And when new solutions need to be developed quickly, KeyedIn clients turn to KeyedIn Flex, the company's rapid application development (RAD) platform for affordable applications designed just for them.

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www.keyedin.com

Corporate Headquarters

5001 American Blvd West
Suite 1010
Minneapolis, MN 55437, USA
p +1 866 662 6820

EMEA Headquarters

Maple House
Woodland Park
West Yorkshire, BD19 6BW, UK
p +44 (0)1274 863300