Create PMOs that work by Dominick Grillas

Part 2: PMOs that work for you

A PMO that works (for the right reasons)

The endemic failure rate of corporate initiatives in North America (over 40%) creates a staggering amount of business and financial losses, when the ratio is applied to the programs which represent the likely highest investment of companies. The rate of success can be increased to 90% and above by the introduction of effective project and Program Management.

Projects, programs and portfolios are distinct execution vehicles, producing specific outcomes. The very first step in gearing up to accomplish a given goal is to actually declare it; this sounds trivial, but is often skipped or left ambiguous.

Programs and portfolios need to be managed as complex and dynamic processes, as opposed to a mere collection of projects summarized with dashboards and "execution to Date" graphs.

Historical data can (and should) be used for much more than predicting the completion or success of the effort with a primary focus on the execution (costs and resources and timeline), an important but somehow trivial aspect of managing key investments.

Project Offices:

Projects aim at creating a work product or deliverable (software application, building, car, process optimization). The business case for a project is the balance between the market value of the work product (market price) or its use (rent or use value) and the total cost of creating it (building cost).

A Project Office is a structure that oversees multiple projects, with a charter to deliver a higher rate of success, provide standard practices and be an independent review board and reporting structure. Success for a project is defined by the completion of the effort on time, on budget and on expectation (the "Project Triangle"); the reporting structure in essence is the collection and analysis of the data supporting these three dimensions.

Projects fail primarily because the resources are inadequate, the requirements have changed, or a major issue occurred that took away the capacity to complete successfully the effort. In addition to the monitoring of the execution, the Project Office therefore monitors exceptions, risks and issues, in order to be able to mitigate them before they impact the success of the project. As each project can embrace a different structure, the Project Office creates a high level or generic "meta life cycle" that each individual project either uses as a template or maps to. A typical project life cycle is:

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Historical trails, including how similar past projects fared and associated known issues, are a good source of data for analysis and predicting likely hurdles (if it happened in the past and conditions have not changed, chances are it will happen again).

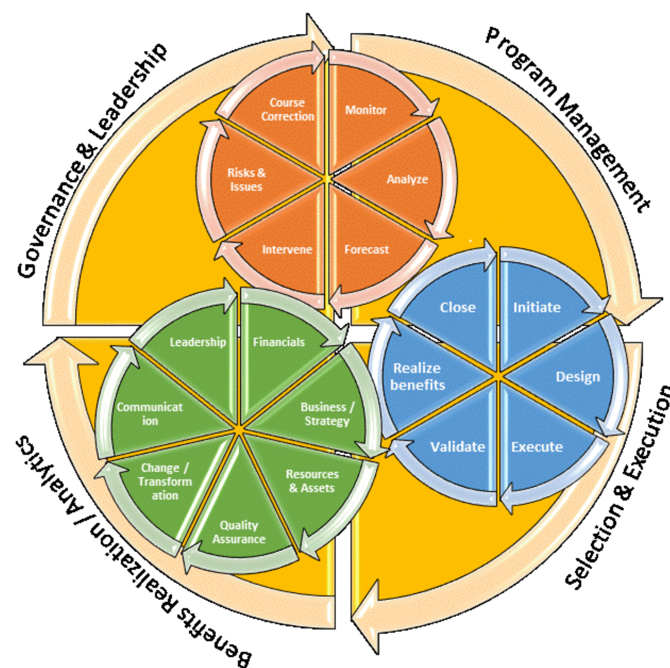
Benefits from a establishing a Project Office (or Project Management Offices) include:

- The standardization of the execution (e.g.: leveraging best practices, methodologies and Body-of-Knowledge constructs) which in turn allows consistent and comparable reporting as well as historical analysis.
- Increased, then stable rate of success of projects, matching or exceeding an industry, corporate or other given historical value (with a likely target at or above 90%)
- Establishing a dependable capability to take on and execute projects; in some cases it includes a pool of resources which are assigned to project with a shared service approach.
- Reduce the direct and indirect costs of projects failure, variance and dissatisfaction (aka missed benefits and opportunities) as well as the incremental costs of "Redo & Rescue".
- Reinvigorate trust and belief from the enterprise into project management capabilities (yes, we can do projects successfully!).

Program Management Offices

The first occurrence of a Program Office structure is when Program is launched, creating the need for a management and governance structure necessary for the multiple dimensions and layers of activities involved.

Programs can be a single project-like effort or be comprised of a number of individual initiatives, executed in a coordinated plan. As the Program achieves a business value, the creation of artifacts (software, products or and process changes) are only a part of the entire process. A typical program life cycle would be:



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The simultaneous layers are:

Program Management	(larger shape) The overall Program Management life cycle, with the Concept and Launch phases, the establishment of a Leadership teams and a Roadmap.
Selection and Execution	… (or procurement) of the projects or work-streams, which includes the oversight, funding and support for all projects and efforts undertaken until deployment
Operationalization of the efforts	Including the associated transformation, benefits realization and management of Financials and Resources. This phase of the cycle embeds the continuous analysis of the demand and of the business landscape and assesses the predictability of performance.
Governance & Leadership	Where the overall Program status, progress and performances are reviewed, strategic decisions are made and course corrections are decided.
Project Execution	Is the first (blue) loop within the Program Cycle and is a meta-Life Cycle that charters all efforts (internal and external) to enable consistent cross-reporting. Each individual effort is managed independently but needs to collaborate with other initiatives.
Control & Analytics	(the second loop, green) Monitors the operational deployment of the efforts until completion, recognizes and possibly accrues the benefits along the way and continuously evaluates the performance. This is also where the Change Management and Transformation take place, to ensure benefits are sustainable.
Governance Structure	(third loop) Involves all leadership and sponsorship for the Program, represents the business leadership for the program, accelerating or shifting priorities to accommodate changes to the business environment and the contribution of the Program to the enterprise performance (e.g.: scaling up and down the capital investments to maximize the financial position of the company).

A special case is when a large organization decides to establish an Enterprise Program Management Office, which in fact acts as a “super Program Office”, overseeing Programs and their associated PMOs to ensure consistency and a faster access to best practices and consistent reporting. In many aspects, the EPMO acts as a quasi-Portfolio, launching and prioritizing programs and investments in a continuous cycle, often linked to the Strategic Planning efforts.

Good Program Management Discipline brings many benefits, starting with the increased performance of large, business driven initiatives, the actual realization of the benefits resulting from the Business Cases, the operational support for transformational efforts and the optimization of the resources during the entire duration of the Program.

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Portfolio Management Offices

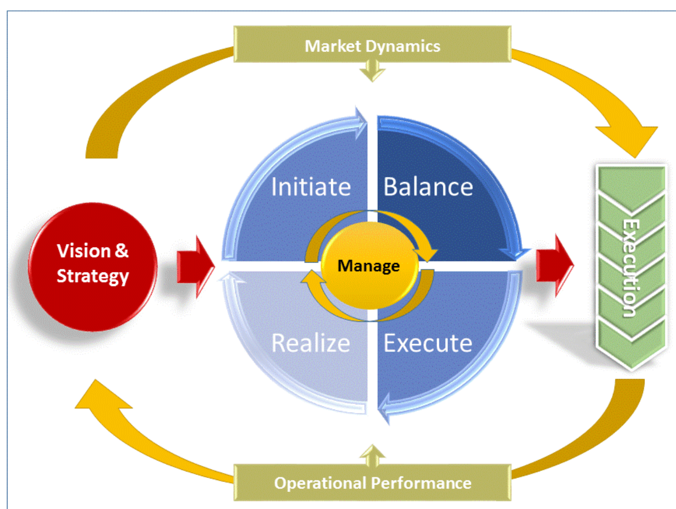
The management of a specific class of assets is the primary criterion that defines a Portfolio. Assets can be projects, programs, tangible assets, knowledge, innovations or even vendors; the only constraint is that the Asset Class demonstrates consistent attributes and characteristics, in particular as related to their management and value.

Portfolio management operates on two simultaneous levels at all times:

- A portfolio monitors the performance of each of its assets to ensure the maximum performance is reached (e.g.: returns on investments, equity value or customer satisfaction). Although each asset is managed in autonomy, there is a performance charter with the Portfolio Management stating the expected performance. Failure to meet the performance threshold might trigger scrutiny, audit and possibly intervention to restore the targeted performance levels. In exchange, the Portfolio usually provides funding and resources to the assets, for execution, maintenance or other life-cycle demands.
- The second dimension is the overall direction of the portfolio. The selection and prioritization of the assets, including acquisition (launch) and the disposal (termination) of the assets in a continuous cycle can have a radical effect on the overall performance of the portfolio. An Innovation Portfolio aiming at breakthrough products would select ideas with a high potential of disruption and ignore ideas that would improve or sustain the current product line. There is no doubt that the resulting portfolio will be deeply biased towards a direction or goal.

The combination of individual asset performance and selection of assets strongly aligned with the ultimate business drivers represent the total performance of the portfolio.

As a portfolio can carry on for a long time, it is likely that the strategic or business goals will change, possibly at a rapid pace if the business context is turbulent. Shifting the priorities and the selection criteria can help a portfolio operate a rapid change of direction, only limited by the assets under management and their life cycle. In case of a rapid change, the business case for writing off assets (selling at a loss or terminating a project under execution) can even be made, if the new class of benefits more than compensate for the now sunk costs associated with the change.



A typical Portfolio Life Cycle is as follows:

The benefits of Portfolio Management resides primarily in the capacity to manage the two dimensions of performance (one on the execution and the other on achieving strategic objectives), as well as the agility and rigor of the assets selection process.

It is important to note that as the focus moves from project to program to portfolio, the nature of the return on the investments shifts.

At the project level, the return is the provision of a work product that carry a value equal or superior to

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the original cost structure. As the project ends with the delivery of the artifact, the real return is the timely completion at or under budget of the effort as per its scope.

Programs deploy the assets acquired or built to generate business and financial returns. Many Business Cases are actually incorrect as they compare the investments (cash flow) to revenue, sales or other income values. The returns must be calculated in cash flow or EBITDA to be meaningful, whether using a ROI, NPV or Profitability Index as a metric.

With the dual dimensions of a portfolio, the benefits should be a combination of the net return from the projects or assets (same comment as above on the consistency of the financial analysis) and a measure of qualitative business or strategic value (e.g.: market share in a specific segment and geography). A secondary target could be the cycle time to operate a full scale change of direction of the portfolio, which is a measure of the strategic and operational agility of the business.

PMOs that Work

Operating governance structures like PMOs and Portfolio Management bring the dual power of high focus and best practices. Setting up rules and processes or prioritization schemes not only saves time, but prevent most of the emotional bias linked to an important decision.

It can be difficult for anyone to sacrifice what looks like a great idea, turn down an innovation or terminate an underperforming project or program. Doing so when you are the sponsor or part of the team that came up with the idea in the first place makes it an almost impossible task.

Relying on hard facts, comparative or historical data and algorithms makes it easier to substantiate why a decision must be made. Like in all things, even the most sophisticated tool can miss some subtleties, and there always the possibility to override the implication of the scoring calculation; but at least the facts are clear and the rationale for the decision stands out without any ambiguity. This might be one of the biggest benefits of a structured governance.

The steps to create an effective PMO or Governance operating structure are straightforward:

1.	Determine the type of effort to be undertaken (Projects, programs or portfolio)
2.	Determine the definition of success for the Leader and for the Sponsor of the above: a. Project: deliverable and acceptance criteria with Use Case b. Program: deliverables and results, business value with Benefits Case c. Portfolio: individual assets success criteria; portfolio success criteria; return on investment case
3.	Establish the best practices and standards to be used during the execution phase (Life Cycle, scoring, NPV, Hoshin Matrix)
4.	Charter the Governance structure with representation from the Sponsor, execution Leadership and independent data analytics
5.	Launch the effort with the minimal structure (Pilot) to build the framework and test the assumptions and practices
6.	Review Pilot results and after adjustment, scale up the framework
7.	Define the conditions or criteria to close out the governance structure (because the effort is over or by transferring it to an operating structure)

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A success driver is the verification that the governance structure in place matches the nature of the asset or of effort to be undertaken. Too often Programs are viewed as projects, hence focusing on the technical execution, missing out the business value. A typical example could be a CRM or Big Data initiative: although they are generally undertaken to improve sales or customer targeting, it could be easy to manage them as a technology project and deliver an information system technologically correct, but which does not help the business growth.

Expecting a project manager to oversee how the work product is going to be used would be asking an impossible task from an individual trained to deliver and move on to another project. Asking a Portfolio Manager to focus on the individual performance of the assets without the long range vision for the Portfolio is missing an entire dimension of returns as well as unnecessary overhead costs (duplication of efforts).

Clarity to spell out goals and remove ambiguities is probably the first and most important success driver for establishing a governance structure. The hard questions generated by clarification are better asked before launching a critical or expensive effort than half way through, or upon the end. If nothing else, it will provide a way to measure returns and to declare - true - success.

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