J. KENT CRAWFORD

The Strategic Project Office

Second Edition
The Strategic Project Office
Second Edition
PM Solutions Research

Editor

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The Strategic Project Office, Second Edition
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Project Management Maturity Model: Providing a Proven Path to Project Management Excellence, First Edition
J. Kent Crawford
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Foreword

Portfolio Strategy Group, Global Project Operations, Global Program Management Office, or Enterprise Project Management ... I have seen and used countless names for the organization that plays the central role in managing initiatives within a firm, agency, or line of business. These names hint at the promise and peril of such groups. Firms need to make their strategy “real”; in other words, they need to turn their strategy into operations.

Therefore, the ideal Strategic Project Management Office (PMO) ensures that the right projects are selected at the right time, done the right way, and deliver right and lasting results. Unfortunately, most PMOs never get even halfway to that goal. All of the research shows that most project management improvement efforts fail, most lasting only two years.

Why? My experience is that too many PMO leaders behave as if improved project management is an end in itself. Better templates, more skills, and a tool or two seem to be enough in many PMO directors’ minds. Strategy and benefits management are thought of as someone else’s job.

What then is the right way to build and sustain a strategic project office? Kent Crawford answers this question in the second edition of *The Strategic Project Office*. The first edition has been the foundation
for much of my thinking about initiative management, and the second edition takes thought leadership to a new level.

Crawford leverages years of experience (I’ve been a client of PM Solutions for many years) to further improve an already excellent resource. Three elements of the second edition stand out:

- **Human Capital.** As implied above, too many PMOs are content with delivery of skill-based training. But, what about career paths? What about role descriptions? What about softer skills like holding a critical conversation or developing others? The second edition lays out a comprehensive approach to building a model PMO.

- **Strategy.** As Stephen Covey (influential author and management expert) says, “… building with the end in mind is a fundamental success habit.” The second edition leverages recent research to reinforce the use of a Strategic PMO as a “strategy management center” to align corporate strategy with the project portfolio.

- **Collaboration.** Social media has the potential to revolutionize the way we collaborate on projects. I’ve seen it used to build methodologies, drive project communications, and brainstorm on requirements. To that end, the authors provide information on the use of collaborative and social media tools in project management.

The first edition of *The Strategic Project Office* sits on the top shelf of my bookcase. I’m sure that the second edition will have similar pride of place … when I haven’t loaned it out to members of my team as homework.

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Director, Global PMO
Mead Johnson Nutrition, Inc.
Evansville, Indiana
Preface

What’s New in the Second Edition?

If you were inspired to pick this book up off the shelf, chances are you already have some idea of the importance of good project management to today’s organizations. Managing an endeavor with a fixed deadline, a unique product, and a budget cap is a very specialized art/science that has long been embraced by construction and the defense industries. More recently, project management was “discovered” by every industry where new products are the lifeblood of competition. In software development and other information technology/information system (IT/IS) application areas in particular, the value of sound project management has been underscored by the findings of research firms, such as the Standish Group, Gartner, Inc. and Forrester.¹

However, sound project management of individual projects is no longer enough. While there still are some instances in which a company is almost entirely focused on one or two major projects at a time—small software development firms or capital construction firms come to mind—the reality for most businesses is dozens of projects throughout the company in various stages of completion (or, more commonly, of disarray). It wouldn’t be at all uncommon for a company to have several new product development projects in process, along with a process reengineering effort, a quality initiative, a new
marketing program, and a fledgling e-business unit. Widen the scope of your thought to take in facilities, logistics, manufacturing, and public relations and you begin to understand why most companies have no idea how many projects they have going at one time. And, when you consider that technology plays a role in almost all changes to organizations these days, and that technology projects have historically been challenged a hefty percentage of the time, the light begins to dawn. Unless all the projects that a company engages in are conceptualized, planned, executed, closed out, and archived in a systematic manner (i.e., using the proven methodologies of project management), it will be impossible for an organization to keep a handle on which activities add value and which merely drain resources.

As the saying goes, you can’t manage what you can’t measure, and unless all the projects on the table can be held up to the light and compared to each other, a company has no way of managing them strategically, no way of making intelligent resource allocation decisions, and no way of knowing what to delete and what to add. And the only way to have a global sense of how a company’s projects are doing is to have some sort of project focus point: the Project Management Office (PMO).

Call it what you will—Center of Excellence, Project Support Office, Program Management Office, even Strategy Execution Office—a home base for project managers and project management is a must for organizations to move from doing a less-than-adequate job of managing projects on an individual basis to creating the organizational synergy around projects that adds value, dependably and repeatably. We believe that is why the PMO concept has taken off in such a startling growth curve in the past decade, necessitating a major update of this book.

Who Is This Book for?

The content of this book, in addition to supporting the coursework for our class (“The Ultimate PMO”) is relevant to four principal segments of the project management community within an organization:

- Executive management project managers
- Project Office directors
- Managers of project managers
- Project managers
It is our hope that the book will make the rounds of all four groups because, without buy-in on all levels, the project office culture is very difficult to instill in an organization. Project managers need to understand the big picture of how their project fits into the organization as a whole, as a piece of the portfolio, and a part of the strategy. Managers of project managers and the PMO director require a game plan whereby they can improve project and project manager performance and take the lead in disseminating project knowledge throughout the company culture. Those who have already been tasked with the responsibility of spearheading the PMO will now have a handbook to guide them.

Executives need to be fully cognizant of the investment required of them in moving an organization to a higher level of functioning with regard to projects: they must champion the project philosophy, connect project performance to the overall bottom line and corporate strategy, and stand behind the implementation effort with the full power of their leadership. Because executive participation is so important and executives have so little time, you will find throughout the book important points for executives pulled out into Executive Tipsheets. Combined, these thumbnail summaries of the most crucial elements in each chapter provide the busy CEO with a crash course in the primary issues to be dealt with in each phase of implementing a PMO.

What’s New in the Second Edition?

Back in 2000, Gartner, Inc. predicted that, through 2004, companies that failed to establish a project office with appropriate governance (author emphasis) would experience twice as many major project delays, overruns, and cancellations, as would those companies with a PMO in place.

At the time, this seemed like a bold statement; in fact, the PMO role that has emerged over the past decade is far more extensive than that. We will discuss the shape of the new “next-generation” PMO in the Introduction and provide information on the changing status of the PMO from PM Solutions’ 2008 State of the PMO research project, as well as from action research carried out at benchmarking events held from 2002 to 2009.

In Chapter 1, we provide new information on the Strategic Project Office (SPO) as a “strategy management center” to align corporate
strategy with the project portfolio. This information has been derived from our Strategy & Projects research study, subsequent secondary research, and experience with clients in the field.

A new chapter (Chapter 6) on Project Portfolio Management (PPM) has been added, reflecting the vastly increased importance of PPM as part of the responsibilities and toolkit of the enterprise, or Strategic PMO. It showcases research on the maturity of PPM practices carried out in 2006.

Chapter 7 has been greatly augmented by materials we developed for our book, Optimizing Human Capital with a Strategic Project Office (Auerbach, 2005), covering the human resources (HR) aspects of managing project personnel.

In Chapter 8, we have added new material on an aspect of PMO infrastructure that scarcely existed at the time the first edition was published. The use of Web-based collaborative tools and social media tools in project management is growing and promises to revolutionize team communications and innovation practices.

Our chapters on PPM and knowledge management have been refreshed with expertise developed over the past decade in PMO and project management performance measurement. More than ever, the question of the value delivered by a PMO needs to be in the forefront of every practitioner's mind. Our value measurement framework has helped numerous companies to ascertain their organization's contribution to the bottom line.

Naturally, the entire book has been updated to the latest version of the Project Management Institute's standard, A Guide to the Project Management Body of Knowledge (PMBOK®).

Most noticeable is that the book is now structured in the same pattern as our Ultimate PMO (UPMO) class.* That means it covers four primary areas of knowledge and practice about the PMO:

- Governance and portfolio management
- Resource optimization
- Organizational change
- Performance measurement

* This PM College course is offered several times annually under the auspices of the Project Management Institute's Seminars World.
And, it covers them in the order they are presented in the class, as shown above in Table P.1.

Finally, the appendices offer brief case studies of two stellar PMOs from our PMO of the Year competition slate of winners, from 2007 and 2008. These PMOs, chosen by an independent panel of expert judges, take the PMO concept to a new level. Many of them
are actively implementing programs and strategies that we only dreamed about when the first edition of *The Strategic Project Office* was published.

In addition, replacing the paper-based appendices of useful templates and forms in the first edition, you now will find a CD-ROM of templates derived from PM Solutions’ proprietary Project Management Community of Practice (PM COP). The PM COP materials have been refined in the fire, so to speak, of practical use by our consultants and clients.

**How to Use This Book**

First, read the introductory chapters for background on the PMO and its changing role in today’s business. Then, do the quick organizational preassessment in Chapter 3 to find out what type of PMO is right for your organization. But don’t set your sights too low. Our objective in writing this book is to help more organizations move to the most effective model of the PMO: the enterprise level or Strategic PMO.

We have seen companies fail in PMO implementations because executive leadership hands off the job of “creating a PMO” to one individual. But, the implementation of a PMO is less like a solo and more like a five-act production with a cast of thousands. The entire organization has to get involved. So, as Paul Ritchie suggests in the Foreword, pass this book around and use it as a tool to get both executives and PMO personnel “on the bandwagon.”

We still agree with Tom Peters: “100 percent of everyone’s time should be taken up by projects.”

But that’s not enough. Just putting 50 ballerinas on stage and yelling, “Everybody dance!” does not make it *Swan Lake*, no matter how good their individual skills may be.

Everyone within a company and, to some extent, within that company’s vendors, alliance partners, and other external stakeholders, needs to be working to the same beat. Management guru Stephen Covey is right: Interdependence is the name of the game, and the Strategic PMO concept is the way for people throughout your company to recognize and capitalize on their interdependencies, to manage and transfer project management knowledge, and to get into step with each other for the benefit of all.

Where do you start? Just turn the page.
Notes

Acknowledgments

This book may prove to be the exception to the old rule about writing by committee. As such, it’s a great example of the efficacy of one of project management’s signal features: the creative team. As with any product that distills the experience and knowledge of many people working together over time, it is a little hard to give all credit where it is due. I will do my best to name names here, with the uncomfortable feeling that someone is bound to be inadvertently left out. For any oversight, I apologize in advance.

Thanks first of all to Jeannette Cabanis-Brewin, PM Solutions’ editor-in-chief, for polishing the rough core of my materials into a well-organized and readable book and guiding the manuscript through the publishing process with Taylor & Francis. Subject matter reviewers John Casey, PMP (PM Solutions), and Paul Lombard, PMP (PM College), were also instrumental as we refined the first edition and brought it up to date.

I offer a special “thank you” to my many students and clients. You have formed much of the knowledge base and case studies over the past many years. I so appreciate your contributed experience, insights, and wisdom to the collective mind of myself and PM Solutions. Through many shared challenges, in which we have agonized solutions, tested theories, and taken many risks, you have provided me with the insights I share in this book.
And, finally, I can’t forget the many current and former associates of PM Solutions and PM College who, by their efforts on behalf of clients in the field, have helped to develop and refine our Strategic PMO processes, strategies, and knowledge. This team of experts created success after success in some of the most challenging cultures, industries, and environments. Yet, they continued to evolve, create, and design the most innovative and value-added project management approaches in the world. These many examples are embodied within the very structure you are about to explore. My deepest gratitude to the PM Solutions and PM College teams.
Introduction: The Project Management Office Concept, Then and Now

We’ve heard so much in the past few years about the PMO that it’s hard to believe there was a time, not long ago, when the idea of an organizational center for project management was way out there on the fringe. But, project management wandered rootlessly throughout the organization for about a quarter-century before it became fashionable to build it a home in the Project Management Office (PMO). Let’s examine how the management of individual projects evolved naturally into a project management center.

Early Days

Project management has been around for decades—some may argue for centuries. In the construction industry in particular, the idea of a work effort with a specific set of requirements and a deadline had been business as usual since the days of the pyramids. However, the concept of the project as an organizing principle and a management specialty—with its own techniques, tools, and vocabulary—had its beginnings in the twentieth-century military. Like many other features of post World War II America, the project and its supporting software and techniques were a spin-off of the first truly modern war effort.1
These military origins help to explain why the initial focus in projects was on planning and controlling. In fact, control might be considered the _raison d’être_ for project management: control of schedules, costs, and scope on endeavors that otherwise might careen over budget, over time, and/or fail to meet specifications.

That “out-of-control” feel that projects often inspire, however, has its roots in the way projects were superimposed on existing bureaucratic structures with their bulky communications mechanisms. Imagine the highly hierarchical command-and-control management of a military organization, and then imagine a short-term, deadline-sensitive effort with budget, personnel, and other resources drawn from multiple departments, divisions, and even branches of the service. Obeying the strictures inherent in the hierarchy while, at the same time, acting for the best interest of the project under such conditions would have been difficult at best, and was often downright impossible. But, this is the model we began from in project management. No wonder projects felt uncontrolled, mysterious; no wonder project management developed a reputation as both science and “art.” It is interesting to note that the military was also the first to react to this situation, creating System Program Offices with semiautonomous program managers empowered to plan, execute, and complete projects (subject to “higher authority,” such as the U.S. Congress). These System Program Offices were the precursors of today’s project offices in the private sector.

_An Evolving Structure_

When project management’s early tools—Gantt charts, network diagrams, PERT—began to be used in private industry, the new project managers faced a similar hurdle: business was also fashioned on the command-and-control model. Putting together an interdisciplinary team was a process fraught with bureaucratic roadblocks. The earliest uses of project management, in capital construction, civil engineering, and R&D, imposed the idea of the project schedule, project objectives, and project team on an existing organizational structure that was very rigid. Without a departmental home or a functional silo of its own, a project was often the organizational stepchild, even though it may have been, in terms of dollars or prestige, the most important thing going on. Thus was born the concept of the “matrix organization”,...
really a stopgap way of defining how projects were supposed to get
done within an organizational structure unsuitable to project work. It
was a “patch,” to use a software development term, not a new version
of the organization.

Today, those rigid, pyramid-shaped structures are changing shape.
“Flattening” the organization means erasing the boundaries between
functional silos. This trend is driven by both market imperatives and
by the seamless communication made possible by modern commu-
nications technology. Multidisciplinary, team-based endeavors are
now recognized as the only way to stay adaptive and flexible enough
to succeed in a changing marketplace. Many organizations that
host projects now take a different tack; rather than forcing projects
to fit within a bureaucratic structure, they embrace projects as an
organizing principle. Projects are no longer “something extra.” they
are the way work gets done at an increasing number of companies,
from small start-ups to the likes of Hewlett Packard, IBM, USWest,
Motorola, ABB, and many others. It’s no accident that the majority
of the applicants for our PMO of the Year Award are members of the
Fortune 1000.

However, such change doesn’t come easy. To take it out of the
management context and put it in political terms, reorganizing a com-
pany’s work around projects is the equivalent of moving from a feudal
system to participatory democracy. Many of the participants in the
PMO implementation courses I teach come from companies that have
started “management by projects” initiatives in the past and failed—
sometimes more than once.

Many times these failures are a result of the organization misjudg-
ing the magnitude of the change they were about to undergo. From
many teaching engagements centered around implementing the PMO,
my impression is that most of my students hold the misconception
that a PMO is merely a project controls center that focuses on sched-
uling and reports. At one time, of course, this was true. In the old
matrix organization, if a project was lucky to have a “project office,” it
was usually nothing more than a “war room” with some Gantt charts
on the walls and perhaps a scheduler or two, people gifted with the
ability to run the project management scheduling software of the day.
This simple, single-project control office is what I call a Type 1 Project
Office (see Chapter 2 for a full discussion of these levels).
A Type 2, or “department-level,” PMO may provide support for individual projects, but its primary challenge is to integrate multiple projects of varying sizes within a division (such as information technology (IT)), from small, short-term initiatives to multimonth or multiyear initiatives that require dozens of resources and complex integration of technologies. With a Type 2 PMO, an organization can, for the first time, integrate resources effectively because it’s at the organizational level that resource control begins to play a much higher-value role in a project management system.

For an organization without any repeatable processes in place, such as the majority of software development organizations, which are at the first, or initial, level on the Software Engineering Institute’s Capability Maturity Model, these types of PMO organization are beneficial.

At the individual project level (Type 1), applying the discipline of project management creates significant value to the project because it begins to define basic processes that can later be applied to other projects within the organization.

At Type 2 and higher, the PMO not only focuses on project success, but also migrates processes to other projects and divisions, thus providing a much higher level of efficiency in managing resources across projects. A Type 2 PMO allows an organization to determine when resource shortages exist and to have enough information at their fingertips to make decisions on whether to hire or contract additional resources.

And, the Type 3 Strategic PMO applies processes, resource management, prioritization, and systems thinking across the entire organization.

The development of each of these types of project infrastructure provides a significant boost to process maturity. (For a fuller discussion of the relationship between PMOs and project management maturity, see Chapter 3.)

But, it’s at Type 3—the enterprise or Strategic PMO—that the value-adding mechanisms of a PMO really reach warp speed. At the enterprise level, the PMO serves as a repository for the standards, processes, and methodologies that improve individual project performance in all divisions. It also serves to deconflict the competition for resources and to identify areas where there may be common resources that could be used across the enterprise. More important, an enterprise-level PMO allows the organization to manage its entire collection of
projects as one or more interrelated portfolios. Executive management can get the big picture of all project activity across the enterprise from a central source: the PMO; project priority can be judged according to a standard set of criteria, and projects can at last fulfill their promise as agents of enterprise strategy. Gartner, Inc. has identified five key roles for a PMO, all of which are most effectively carried out at Type 3:

- Methodology center: Developer, documenter, and repository of a standard methodology (a consistent set of tools and processes for projects).
- Resource evaluator: Based on experience from previous projects, the PMO can validate business assumptions about projects as to people, costs, and time; also a source of information on cross-functional project resource conflicts or synergies.
- Project planner: A competency center and library for previous project plans.
- Project management consulting center: Providing a seat of governing responsibility for project management; perhaps, staffing projects with project managers or deploying them as consultants.
- Project review and analysis center: A knowledge management center where information on project goals, budgets, progress, and history are stored, both during the project life cycle and after, in the form of lessons learned.

Recent research has shown that, in addition to all these roles and functions, the Strategic PMO has taken on responsibilities once reserved for the C-level, or set aside for the human resources (HR) department. The majority of enterprise-level PMOs now play a key role in recruiting, hiring, training, and developing their own personnel and in doing performance reviews. They also have taken ownership of the project portfolio management process, putting the PMO at the nexus of strategy and tasks. In addition, the pressure to show the value added by the various functions, from IT to HR to PM, has led the PMO to take the lead in refining benefits realization processes and implementing performance measurement frameworks.

Thus, more than a place or a set of people, the PMO is “a shared competency” designed to integrate project management within an
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INTRODUCTION

enterprise. A Type 3 PMO can promote enterprise competency in project analysis, design, management, and review. And, says Gartner, “… given the appropriate governance, it can improve communication, establish an enterprise standard for project management, and help reduce the disastrous effect of failed development projects on enterprise effectiveness and productivity.”

Although admittedly many companies today still struggle to implement even Type 1 Project Offices, the focus of this book is on the Type 3 Strategic PMO. Why? Because that’s where organizations can get more bang for their buck—and realize organizational dreams at the same time. Like the matrix organization, lower-level project offices are a way station—a stage between the old-style organization and the new, project-based enterprise.

Why the PMO Matters Now

There’s been a tremendous resurgence in interest in the discipline of project management in the past few years. The reason? Information technology, information services, and new product development organizations have “discovered” project management. A traditional part of the toolkit for construction and large government projects, project management now sparks interest wherever compressing time-to-market cycles is an issue; in other words, throughout the modern marketplace. As industries work hard to compress product lifecycles, to reduce costs, and to improve the quality of their deliverables, they are increasingly turning to project management.

Thus, the extensively practiced and researched disciplines of project control systems and schedule development have now come to find a home in less traditional areas, such as high-tech industries, where organizations are under increasing pressure to utilize product development funds more efficiently. There’s been a shift of focus toward the business side of delivering high-tech products and services—a focus on the process and the business of managing projects.

With this microscope turned on the business side of IT projects comes the bad news. Most of them are not managed very well. In all fairness, project success rates in other industries may not be that great either, but they have not been subjected to the intense scrutiny that
technology projects have been, for the simple reason that high-tech is one of the largest sectors in the economy, and, increasingly, it is difficult for any business not to rely on information technology as a crucial strategic resource. As IT moves out of the back office and into more mission-critical business processes like customer relationship management and e-commerce, the line between IT and other types of projects is blurring.

**Failure: A Wake-Up Call**

Most readers are probably familiar with the dismal technology project failure statistics that have been kept since 1994 by The Standish Group International Inc., a research firm in Dennis, Massachusetts. After a decade of improving results, troubled project rates rose in 2004, according to the Standish Group’s CHAOS Report on software development projects. The 2004 report indicated that 71 percent of IT projects go awry. While other studies found a lower percentage of troubled projects, it’s certain that problems occur at an unacceptably high frequency. Research by PM Solutions’ Center for Business Practices in 2005 indicated that 1,660 out of 3,952 projects performed by the surveyed organizations were troubled—an average of $30 million of projects at risk per organization. Research sponsored by Computer Associates in 2007 noted that among United Kingdom-based IT organizations, a third of all projects implemented each year end up over budget due primarily to issues of interdependencies and conflicts between multiple projects coupled with the lack of control chief information officers (CIOs) have over project portfolios. And research from the University of Oxford led by Christopher Sauer noted that a “volatility” in projects—frequent uncertainties of staff, sponsorship, deadlines, and scope—contributes to poor project performance.

In construction, widely held to be the most mature industry in terms of project management, there was the loudly publicized failure of the Boston Central Artery/Third Harbor Tunnel (Big Dig) project in Boston, Massachusetts, which featured then–presidential candidate Sen. John McCain dressing down the project manager in front of the Senate Committee on Commerce, Science, and Transportation. At its inception, the project was expected to cost $2.6 billion, but a federal
estimate in February 2000 put the actual price tag at $13.6 billion—a cost overrun of more than 500 percent.12

In the consulting field, such industry giants as Deloitte Consulting, PeopleSoft, and Andersen Consulting became targets of lawsuits in 1999 by companies furious that enterprise resources planning (ERP) and HR system implementations had dragged on for years, run millions over budget, saddled customers with incompetent consultants, and created a culture of dependency on the consulting firm.

Project failure, as Standish Group chairman Jim Johnson has noted, “… is everyone’s problem.”13

The solution? In 2000, Gartner, Inc. proposed that, as a Strategic Planning Assumption for companies, information system (IS) organizations that established enterprise standards for project management, including a Project Office with suitable governance (author emphasis), would experience half as many major project cost overruns, delays, and cancellations as those that fail to do so. They also noted that the IT software development project as presently managed is often 170 percent or 180 percent over budget.14

Why is this so important? Because time is money. If a project is late for an amount of time equal to 10 percent of the projected life of the project, it loses about 30 percent of its potential profits.15 A study by McKinsey and Company has shown that high-tech products lose 33 percent of after-tax profits when they are late to market, but, lose only 4 percent when they are on time, even if they are 50 percent over budget.16

Failure: A Learning Experience

The good news in those bad statistics is that there is a trend toward improvement. In 1999, the Standish Group reported that project failure rates were falling.17 Based on an examination of 23,000 software projects in companies of all sizes, in many industries since 1994, their research shows that project success rates are up, while cost and time overruns are down. In 1994, only 16 percent of application development projects met the criteria for success—on time, on budget, and with all the features originally specified. By 1998, 26 percent were successful. Large companies have made the most dramatic improvement. In 1994, the chance of a Fortune 500 company’s project coming in on time and on budget was 9 percent; its average cost: $2.3 million. In 1998, that same project’s
chances of success had risen to 24 percent, while the average project cost fell to $1.2 million.

Johnson believes three factors explain these encouraging results: (1) a trend toward smaller projects that are more successful because they are less complex, (2) better project management, and (3) greater use of “standard infrastructures,” such as those instituted through a PMO.

Although Standish’s latest study still shows a high percentage of failed or challenged projects, with the improvement curve flattening, other researchers are beginning to question the methodology behind these numbers, pointing out that the definition of a failed project may actually mask successful and prudent business practices, such as knowing when to cancel a failing or redundant project. Such decisions can be the fruit of improved project portfolio management within the PMO.18

Nevertheless, one concrete benefit of this research has been the collection of an enormous amount of data on why projects fail. Why Projects Fail Infoweek magazine put it succinctly in their August, 1996 issue: “The major cause of project failure is not the specifics of what went wrong, but rather the lack of procedures, methodology, and standards for managing the project.” The project manager who is asked to manage a project with no methodology, no procedure, and no process to support them is going to be very challenged to keep that project under control. Some reasons for failure that are directly related to lack of a Project Office include:

• Project managers who lack enterprise-wide multiproject planning, control, and tracking tools often find it impossible to comprehend the system as a whole.19
• Ranges of acceptable project variances against key baselines are not established during project initiation or planning, thus, a kill or recover decision is not made early enough.20
• Poor project management/managers. Most of the reasons technology projects fail are management-related rather than technical. The old paradigm of promoting the best technical personnel to project manager level didn’t work because technical ability is a poor indicator of project management ability, yet many enterprises have no processes in place to ensure that project managers are appropriately trained and evaluated.21
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• There is a high correlation between lack of clear project sponsorship and failure. Executive support for/understanding of projects is lacking in many organizations.22

• Accurate project resource tracking is imperative to successful project management, but many organizations are hampered by awkward or antiquated time-tracking processes.23

What We Can Do About It Interestingly, many of the best practices for preventing failures are also directly related to PMOs:

• Enterprises that hold postimplementation reviews, harvest best practices and lessons learned, and identify reuse opportunities are laying the necessary groundwork for future successes.24

• A PMO shines as the repository for best practices in planning, estimating, risk assessment, scope containment, skills tracking, time and project reporting, maintaining and supporting methods and standards, and supporting the project manager.

• Sound project plans are realistic, up to date, and frequently reviewed; reviews focus not just on what has been done, but look forward to identifying risks and opportunities.

• Project metrics and milestones are defined, measured, and reported.25

• Experienced sponsors and project managers develop and maintain a “go/no-go” cancellation strategy. They don’t hesitate to kill a project that becomes a liability, without indulging in blame and punishment.26

• Monitoring critical dates is imperative, and enterprise time-tracking software (usually Web-based for ease of use) has become a necessity for larger projects, multiproject environments, and dispersed project teams.27

• The project manager must be competent and experienced. Benefits of having a good project manager include reduced project expense, higher morale, and quicker time to market. The skills most executives cite as desirable in a project manager include: technology and business knowledge, negotiation, good communications (including writing ability), organization, diplomacy, and time management. Understanding the
business is more important than understanding technology. They must be able to define requirements; estimate resources and schedule their delivery, budget, and manage costs; motivate teams; resolve conflicts; negotiate external resources; manage contracts; assess and reduce risks; and adhere to a standard methodology and quality processes. Such project managers are not accidental, they are grown in an environment that trains, mentors, and rewards them based on performance in projects.

• Best-in-class enterprises have a process of due diligence to turn ideas into projects, using a standard checklist, addressing such issues as sponsorship, project plan, roles and responsibilities, and finance. Based on this checklist, a project is either given the go-ahead, further researched, or rejected.

• Projects should be carried out in a standard, published way, with a project method that sets planning and control standards, review points, the nature and frequency of project management meetings, and change control procedures. Project methods can be short and high level, but they must be clear and up-to-date.28

• Finally, projects must be aligned with the enterprise’s strategic goals and vision, through the mechanism of project portfolio management, administered through the PMO.29

In a similar vein, as PMOs have spread, research and benchmarking on effective PMO practices and structure have proliferated with varying levels of accuracy and quality. By 2004, IT PMOs were beginning to take firm hold, but with mixed results; studies by CIO Magazine and Forrester Research showed that, while PMOs were being broadly implemented, the results were unclear.30

One study by APQC even seemed to suggest that project failure rates increased following the implementation of a PMO.31 However, not all research is created equal, and often questionable assertions are made about project management based on sketchy data, primarily because many companies simply have not had the historical data about projects with which to create a baseline.

In Chapter 9, we will discuss some things to keep in mind when doing internal research and developing metrics by which to measure your PMO processes and progress.32
Tough Economic Times and the PMOs That Weather Them

By 2007, when we initiated our own broad survey of the status of PMOs, the burning question was not: “What is a PMO?” or “Why do we need one?” but “What kind of PMO do we need? and “How can we objectively measure the value it brings to the organization?” The results were astonishing. For example, in our 2000 Value of Project Management study, only 47 percent of the respondents had implemented a project office of any type. By 2006, 77 percent of the respondents to our Project Management: The State of the Industry survey had implemented PMOs; of those, 35 percent had an enterprise-level (or “strategic”) PMO. In 2007, 54 percent of the respondents reported having an enterprise-level PMO in place. Even factoring in the differing research objectives of these studies, the upward trend is unmistakable, both in sheer numbers of PMOs and in the rising organizational clout.33

But, most important, those Strategic PMOs that had been in place for four years or longer seemed to making a definite difference in organizational performance. The results suggested that merely implementing a PMO is not a panacea. Instead, it is PMO maturity that makes a difference to the organization. As PMOs become more mature, our data suggests, organizational success metrics improve. In addition, the mature PMO takes on more roles: in portfolio management, in people management, and in performance management, further elevating its value to the organization.

In 2008 and 2009, the Strategic PMO faced unprecedented stresses: A global economic downturn left many companies reeling and scrambling for ways to cut costs. Yet our best-in-class PMOs continue to thrive because they allow companies to make the most of slim resources: streamlining the portfolio, accurately forecasting resource availability, and allowing changes in strategic focus necessitated by economic factors to be seamlessly carried out because the project portfolio management processes add nimbleness to the organization. And, the PMO received an unexpected boost from an unlikely quarter in 2009, when the U.S. federal government implemented the American Recovery and Reinvestment Act, along with unprecedented focus on excellent program management and transparency of results. Suddenly, federal agencies from NOAA to the USDA wanted Strategic PMOs. How this will play out over the long term is uncertain at this writing,
but, it is a positive note both for the status of project management and for the beleaguered taxpayer.

The Impact of the Mature Strategic PMO  There is a strong correlation between organizational performance and the maturity of PMOs. Mature PMOs show significant improvement in organizational performance, as can be seen from Figure I.1.

Best of all, organizations with PMOs showed significant improvement at each level of PMO maturity; that is, for each incremental improvement in process maturity, there was a corresponding impact on organizational performance measures, including financial performance and customer satisfaction:

- 6.2 percent overall performance improvement from PMO Level 1 to Level 2.
- 14.6 percent overall performance improvement from PMO Level 2 to Level 3.
- 10.5 percent overall performance improvement from PMO Level 3 to Level 4.
- Organizations with PMOs at Level 3 maturity and higher showed a 16 percent budget/schedule performance improvement compared to those organizations with no PMO.

As PMOs mature, they are significantly better at meeting critical success factors, including having effective sponsorship, accountability, competent staff, quality leadership, and demonstrated value. They
have significantly fewer challenges, including stakeholder acceptance, appropriate funding, demonstration of value, role clarification, conflicting authority, and consistent application of processes.

And (gratifying since we advocated this in our 2005 book on the HR aspects of managing by projects\(^{34}\)) as PMOs mature, they are more likely to staff professional planners, schedulers, and controllers:

- Level 2 PMOs have 14 percent more planners, schedulers, and controllers than Level 1 PMOs.
- Level 3 PMOs have 24 percent more planners, schedulers, and controllers than Level 2 PMOs.
- Level 4 PMOs have 70 percent more planners, schedulers, and controllers than Level 3 PMOs.

Across the board, for respondents to this study (see an executive summary of the research in Appendix A), high-performing organizations are more likely to have an enterprise PMO (65.8 percent of high-performing organizations have enterprise PMOs compared to only 48.6 percent of low-performing organizations). The PMOs in high-performing organizations have been in place 29 percent longer (4.5 years) than in low-performing organizations (3.5 years); and high-performing companies have PMOs that perform a wider variety of functions, including strategy formulation, portfolio risk management, benefits realization analysis, contract preparation, outsourcing, project opportunity process development, resource assignment process development, management of a staff of project planners/controllers and business relationship managers, and resource identification and optimization.\(^{35}\)

Wow! Given the obvious positive impact of these PMOs, why doesn’t every company have one?

**The Challenges of Implementing a PMO**

Many times people will sign up for a PMO seminar thinking, “Just tell me how I can set up this administrative structure and I will go deploy it.” They appear to believe Project Office is a clerical function, or that they can bring a small staff to bear to do administrative functions and *voila!* they have project management. Or, if their thinking is a bit more advanced, they perceive it as a project controls
function—controlling cost, time, and resources within the individual projects. Unfortunately it isn’t that simple because you are dealing with people, you are changing culture, building new processes, creating new approaches, integrating these elements across business units, and coordinating with teams of all sizes, technologies, complexities, and business interests. It’s a worthwhile goal, but by no means a simple one to achieve.

The PMO is a function designed to facilitate the management of projects on one level, and improved management of the entire enterprise via project portfolio management and linking projects to corporate strategy. More than establishing an office and creating reports, it is infusing a cultural change throughout the organization.

Culture Change

It is a tremendous challenge to deploy and effectively apply these systems. Our work is cut out for us on so many fronts—both in system deployment and the educational arena—in order to get the best results from a Project Office. The complexity and magnitude of the effort of developing, designing, and deploying a full PO is too often underestimated. Let’s look briefly at eight key areas of cultural change that the Project Office initiation will require. (For a full discussion of changing the corporate culture, see Chapter 9.)

Speed and Patience

Years ago I studied and worked under Oliver Wight, the guru of Manufacturing Resources Planning (MRP) and MRP2. He had charted a number of MRP deployments, and he found that while you could never do one in less than 12 months, if you took much longer than 18 months, the failure rates dramatically increased. This pertains to the deployment of the project management culture throughout the organization; the longer the project duration, the greater the chance of failure. Building a project management culture takes time. On the other hand, it is critical to meet clear objectives during deployment of the PMO or we will risk the possibility of a failed PMO project, with the participants losing sight of added value that project management practices can bring.

Therefore, the basic premise behind deploying a PMO is to move forward quickly, show results within six months, really begin changing
the culture within the first year, and begin showing corporate results within a two-year time frame. But, be prepared that it will most likely take anywhere from two to five years to fully deploy a PMO.37 (For a full discussion of how to structure the PMO rollout to show immediate benefits, see Chapter 4.)

Leadership from the Bottom Up  Typically, what’s happening in business today is that technology organizations are taking these studies that have been conducted by Gartner, Standish, and McKinsey very seriously. They see that their time-to-market is slow compared to either industry average or best-practice companies. They are finding that really the only way they can improve quality, improve time-to-market, decrease costs, improve timing, and improve the level of deliverables is to bring a new process to bear—something different from what they have used in the past.

IT processes and failures were thrown into the spotlight not just because of the research studies, but because of high-profile projects like Y2K and the Euro conversion. Thus, there is a tremendous amount of pressure on technology development projects to improve performance. They feel this pressure internally, but the failure data also has become a whipping stick for the other operational units to punish internal technology organizations with. Project performance has become a significant driver for people’s careers and even for the existence of some internal IT departments. They must bring the organization to a position where it is actually delivering projects on time and within budget and with the quality that is desired by the customer.

So, unlike most organizational change projects of the past, we typically see the initiative to formalize project management begin on the department level, even on the project level. As technology efforts begin to show results, two things happen: (1) all the other the business units begin to come into the project teams as stakeholders of the organization, and (2) those business units see improved delivery performance on technology projects and ask themselves, “What can we do to improve our own performance? What are they doing right that we can adapt to our own projects?”

So, we are seeing a significant shift as IT brings project management to the organization. It’s a grassroots change process quite different from anything traditional companies are used to.
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A Systems-Thinking Perspective To effectively deploy project management throughout an organization, all the players must be on board. Everyone from the project team member on up to the executive sponsors of projects must understand what is happening with project management. This translates to an organizational setting in which virtually everyone who is touched by a project is impacted by what happens with the project management initiative. Ultimately this impact sweeps across the entire corporation. That's why effective PMOs are located at the corporate level, providing data on total corporate funding for projects, the resources utilized across all corporate projects, capital requirements for projects at the corporate level, materials impact, supplies impact, and the procurement chain impacts. To achieve corporate strategic goals, there will be strategic programs that generate strategic projects and those projects will of necessity reach across multiple divisions of the organization, and pull selected resources in to achieve that overall corporate objective. When corporate executives can effectively prioritize projects and make fact-based decisions about initiation, funding, and resources, they will be in a position to apply systems theory to their organization—to optimize the system (corporation) as a whole, rather than just tinkering with the parts (projects and departments). At this point, most corporations haven't yet achieved that level of sophistication.

Enterprisewide Systems Taking the need for common corporate data on resource projections as an example, we can see that all of the planning must be accomplished in a common database so that those resource projections can be summarized at the project level, then at the organizational level, on up to the corporate level, in order to understand the impacts of individual projects or new programs on the overall corporate resource pool.

For this to be possible, common systems must be established that integrate data and provide summarized integrated reporting in a timely fashion—not just with regard to resources, but also in the areas of capital funding, budgeted expenses, and the like.

At the organizational level, effective, integrated resources management, cost planning, and time tracking requires integration with corporate procurement systems, financial systems, time collection systems, and human resources systems. Systems integration at this
level of complexity requires detailed specifications development and planning of its own accord.

Knowledge Management  A whole new set of procedures and standards needs to be established along with a common mechanism for storing and sharing that information. Along with this goes the training process and data collection routine that must be established to get information into this database before knowledge transfer can take place.

One difficulty organizations face is that project management is a fairly new discipline in terms of the knowledge base and standards that exist to support practitioners. What standards exist can be found in A Guide to the Project Management Body of Knowledge (PMBOK® Guide), but these are limited primarily to the management of individual projects, not of an entire project-based organization. Few organizations have kept a history of lessons learned on projects done in-house, or possess standards for data collection of this kind. Therefore, most organizations are very new to this business of project management and are unable to rapidly develop this complex, integrated system that is necessary for accurate data collection and reporting.

Managers and project managers, program managers, will make good decisions with good data. Without good data, decisions are going to be very poor. So, the organization is faced with a very complex integrated system and process that they have very little knowledge how to deploy. That’s why Gartner Group, Inc. recommends incorporating a contractor or consultant in the implementation strategy. It’s necessary to get folks in who have actually done deployments in the past to make the probability of success much higher.

Learning (and Learned) Project Organizations  If your company has a system in place for educating, mentoring, and evaluating project personnel, you are in the minority. When I work with customers, I often ask who is currently engaged as a project manager, project leader, team member, project support staff, and other key positions. I get many positive responses. But, when I ask how many have college or university degree project management, only a few respond positively, and those individuals usually have a master’s certificate in project management. The skill set and knowledge you need to effectively deploy
a project management initiative rivals the knowledge set of an MBA in terms of complexity and integration. Yet, we ask project teams and project managers to effectively execute without having the requisite education or, in many cases, experience to deploy these very complex systems and processes. Learning has to take place enterprisewide for the PMO to be most effective.

Open Communication Communication—a sticky issue even within project teams—must now become free flowing, not just within but between projects and up and down the organizational levels. Why is this so important? Because 80 percent of what we call the “art” of project management is just communication and all the traits that good communicators display: trust, integrity, and honesty. We spend a great deal of time teaching the science of project management, such as how to develop project plans, how to do Gantt charts and work breakdown structures (WBSs), and estimating, and so forth, but these things are actually fairly straightforward. The real challenge comes in blending the art of project management into the science.

Therefore, through new channels of communication set up by the PMO, it will become possible for the entire organizational culture, from chief executives all the way through project teams, to communicate in a common language and work together to understand the issues surrounding how projects are faring and how the issues on one project affect other projects and, ultimately, the organization.

The Objective: Results and Fast

All this costs money, so, at the end of the day, it is absolutely essential that an organization is able to quantify the value that project management brings. What does success look like? How will you know when you have arrived? Dr J. Davidson Frame, PMP, of the University of Management and Technology in Washington, D.C., has performed research\(^4\) that identifies the “traits of competence” exhibited by successful organizations:

- Top management understands project management basics.
- Activity-based costing systems are in place.
- Effective order processing systems are in place.
• Effective training programs are in place.
• Up-to-date tools are provided for staff.
• Clear project management systems and processes have been established.

In addition, a research study sponsored by PMI and the University of California at Berkeley identified the following organizational benefits:

• Improved coordination of intergroup activities
• Enhanced goal focus on the part of employees
• Elimination of redundant or duplicate functions
• Centralization of expertise
• A standardized management approach

This topic is also discussed in Chapter 9, but the key question is how can the initiative show results fast enough to avoid top management loss of interest? There are two ways to demonstrate the immediate value of a PMO: through short-term initiatives and project mentoring. The short-term initiatives provide solutions to immediate concerns and take care of issues surfaced by key stakeholders. These are items that can be implemented quickly while at the same time they take care of organizational top-priority concerns. Examples include: support for new projects and projects in need; an inventory of projects (new product development, information technology, business enhancements, etc.); summary reports and metrics; informal training lunches; project planning or project control workshops; and templates.

In conjunction with the short-term initiatives, project mentoring is an excellent way to provide immediate project management value to projects that are in the initial start-up phase or are in need of support, without waiting for the implementation of formal training programs or process roll-outs.

Notes

7. Light and Berg, “The Project Office.”
12. The chequered history of this project is archived at http://www.massdot.state.ma.us/Highway/bigdig/bigdigmain.aspx.
17. Johnson, “Turning CHAOS into SUCCESS.”
23. C. Natale, “IT Project Management: Do Not Lose Track of Time” (Stamford, CT: Gartner, Inc. May 9, 2000).
25. Paul, “Turning Failure into Success.”
27. Natale, “IT Project Management.”


42. Bridges and Crawford, “How to Start Up and Rollout a Project Office.”
The Authors

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**Jeannette Cabanis Brewin** is editor-in-chief for PM Solutions.
Strategy is the organization’s game plan. And although that plan does not precisely detail all future moves of the organization, it does provide a framework for managerial decisions. Without such a framework, it’s easy for an organization—even a small one—to spin toward chaos. A business is presented with new opportunities and challenges each day; without some guiding point of reference to anchor present decision making to the future, various functions in the organization can wind up working at cross-purposes to one another.

A strategy reflects an organization’s awareness of how, when, and where it should compete; against whom it should compete; and for what purposes it should compete; it is the integrated vision and direction of the organization as well as the manner in which it derives, articulates, communicates, and implements that vision and direction. Strategy answers the question of how a company will position itself against competition in the market over the long run to secure a sustainable competitive advantage.

Far from being some sort of “soft” fluff, strategic planning is where risk management is born.

Strategy has, alas, become something of a buzz word. Many companies claim to have strategy that is, in fact, nothing but a wish list of outcomes or a shopping list of tactics. Often, companies fail to distinguish between operational effectiveness and strategy. Targets for productivity, quality, sales, efficiency, or speed masquerade as strategies. These targets, while essential to superior performance, do not move an organization toward a strategic position in the marketplace. As a seminal article in the Harvard Business Review stated, “Operational effectiveness means performing similar activities better than rivals perform them. … In contrast, strategic positioning means performing
different activities from rivals’ or performing similar activities in different ways.”

Vague strategies cannot easily be translated into the measurable objectives or metrics so vital to achieving these kinds of stretch goals. Unclear corporate and business plans inhibit integration of objectives, activities, and strategies between corporate and business levels. Poor strategies, simply, result in poor execution plans. Those who have labored long in the project management trenches know very well how painful it can be to execute a project perfectly only to find out it is considered a failure because it does not meet a business need.

Therefore, as project management has gained in popularity, corporate executives have struggled to find a way to link strategic business objectives with the individual projects they have been asked to authorize. Too often, projects are chartered that have little or no connection to the corporate strategy formulated by top management. The reason for this is simply the lack of an organizational entity with responsibility to map strategy to projects, and to monitor projects and portfolios to ensure that they continue to address strategic initiatives, even as these initiatives change over time.

Enter the Strategic Project Management Office (SPMO). The SPMO not only provides all the services discussed in earlier chapters to individual projects and department-level project offices, it serves as the critical link between executive vision and the work of the enterprise. By providing a standard organizational methodology for planning, executing, staffing, prioritizing, and learning from all the projects that comprise today’s organization, the SPMO gives organizational life a coherence that has long been lacking.

Let’s explore just what an SPMO can do for your organization.

Overview

A PMO brings project management expertise to bear on any project-related problem or opportunity, wherever and whenever needed. This could include any of the PMO functions or services covered in the Introduction, or shown in Table 1.1.

The Strategic PMO goes beyond the traditional project management categories, with an expanded role that links strategic objectives to
individual projects and portfolios. Several of these additional areas of project control and coordination are discussed elsewhere in this book:

- **Project Management Maturity.** As the owner of the project management process, the SPMO assesses project management maturity and takes action to improve the practice of project management across the organization (covered in Chapter 3).

- **Project Quality Management.** An enterprise-level standard and process for quality must be established. This usually falls with the Quality Assurance organization; however, if a separate QA organization does not exist, the Strategic Project Office (SPMO) is responsible for ensuring that project management process quality is maintained and that project managers take necessary action to ensure the quality of product and service deliverables to customers (covered in Chapter 5).

- **Project Office Steering Committee.** The Director of the SPMO should chair the steering committee that will select, prioritize, and terminate projects; make resource allocation decisions; and provide guidance to project managers (covered in Chapter 7).

- **Process and System Interfaces.** It is vital that various systems within the enterprise share information. The SPMO, working with the information technology (IT) section, takes the lead in this effort to integrate project management software with the accounting, human resources (HR), and other systems. While the specifics of this subject are outside the scope of this book, some PMO software issues are covered in Chapter 8.

- **Creation of a Project Culture.** The SPMO, working with the HR department, takes the lead in creating the project management culture so necessary for many of the advanced topics

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covered in this book to be possible at the enterprise level (covered in Chapter 9).

- **Resource Management across Projects and Portfolios.** Perhaps the most difficult job of a project office is to ensure that resources are assigned to projects according to their position on the prioritized list. This can be done in a number of ways, from having a resource manager within the SPMO who takes requests from project managers and negotiates for resources with functional managers to forming a strong liaison with the HR department, which performs the same service for the project office. Regardless of the mechanism and procedure devised, the SPMO is responsible for ensuring that key projects are not delayed due to resource shortages. Note that it is not the role of the project office to lead project teams. That job belongs to the project manager. Software aspects of resource management are discussed in Chapter 8.

In this chapter, we will discuss those responsibilities and functions of the SPMO that specifically relate to its integrative and strategic role in the organization:

- Linking corporate strategy to programs and projects. The SPMO provides the organizational home for taking the strategy document produced by senior management and converting it into the projects that carry out that strategy.
- Portfolio management, including project selection and prioritization, manages the interdependencies between and among projects, which can only be seen from the perspective of an SPMO. (This topic area will be covered in detail in Chapter 6.)
- Finally, the SPMO has a critical role in project manager competency and professional development, which we look at in detail in Chapter 7.

As you can see from this list, the role of the SPMO is itself integrated with the roles and responsibilities of other staff organizations within the corporation. The relationship between the SPMO and both line and staff organizations within the corporation *must* be worked out as part of the change to a project culture (Chapter 9).
In short, the purpose or mission of a Strategic PMO should be:

- To ensure that the enterprise invests in the best set of projects and programs and realizes the most benefits possible from these investments.
- To provide an organizational focus on improving the management of projects, programs, and portfolios.
- To optimize the capability and use of scarce resources.
- To raise strategic issues to the highest levels of the organization to facilitate effective decision making.

**The Link between Strategy and Projects**

The SPMO has two primary missions: (1) to improve the organization's project management maturity (a process discussed in detail in Chapter 3) and (2) to “link the organization’s projects to its strategic plans.”

The latter of these two—linking strategy to projects—remains revolutionary thinking in some organizations. On a consulting engagement to help an organization improve its project management practices, the author had been speaking to a group of senior managers about the connection between what they set as corporate strategy and what was happening “in the trenches” with their real projects. After about an hour, a group manager tentatively raised his hand and asked, “So, there’s supposed to be a direct linkage between strategy and projects?”

The concept of having someone in the organization (other than the marketing department) look at the strategic objectives with respect to ongoing projects is still new in many organizations, or, if not new, then various initiatives have tried to align strategies and activities with limited success. The good news is that over the past decade, the number of organizations establishing Strategic PMOs to correct this problem has skyrocketed.

Tying the corporate strategic objectives directly to the activities designed to achieve them plays directly into the development of project management maturity as well. It speaks to the need, identified by the Software Engineering Institute, to “institutionalize” good project management practices throughout an organization. If project management processes are not supported by the upper management
of the organization, they will not be applied uniformly throughout. Recognizing the SPMO as the organizational entity chartered to carry out this mission is one way that executive management can act to institutionalize best practices.

It is a source of constant amazement that corporations pay hundreds of thousands of dollars developing and deploying a project management methodology, then make its use discretionary. Human nature is such that most of us, given a choice to adopt a new process or continue with one that “works for us,” will opt for continuing in our old ways. In Chapter 9, we will discuss how to overcome the natural resistance to change by stressing the advantages of adopting a new way of doing things.

Unfortunately, it is outside the scope of this book to discuss all the ways in which corporations can identify and establish strategic objectives because it is in this step that the seeds of successful projects are planted. Ideally, project activities should be at the bottom of a “waterfall” in which corporate strategy is expressed as a set of long-term and short-term goals, and each of these goals is operationalized as a project or program designed to carry out the strategic rationale. Furthermore, the setting of organizational priorities is expressed, on the project level, as a set of metrics by which executives can determine if the project activities, in fact, are moving the company toward the desired goal. These metrics, feeding into the project prioritization system and into the reward system for project team members, complete the feedback loop, making the organization coherent. Project team members are rewarded for behaviors that make projects serve the overarching goals; company strategy becomes everyone’s business instead of the yearly intellectual playground of a top few.

By contrast, in the past, projects were insulated by many layers of management from the strategic rationale, with the result that work was undertaken on a departmental level that either failed to advance key strategic initiatives, or, in some cases, was actually detrimental. Project managers are familiar with the frustrating case of the project that is delivered on time, on budget, and to specifications, but which is a failure in the larger organizational sense because it is irrelevant to the corporate mission or to the competitive stance of the company. Linking strategy directly to the projects that are organized to carry
it out eliminates this frustration, and saves a good deal of time and money as well. We believed this intuitively, but did not rely on intuition alone. A study completed in 2005 by PM Solutions’ research arm showed a strong linkage between aligning strategy with projects and excellent organizational performance.

Strategy and Projects Research Study

Strategic planning becomes meaningless in the absence of a way to execute planned strategies. Organizations execute their strategies through the creation of “strategic initiatives,” comprising portfolios of programs and projects, which become the vehicles for executing the organization’s strategy. To what extent does integrating corporate strategy with project portfolio management contribute to organizational success? To seek an answer to this question, which has significant importance for executives and project managers alike, the Center for Business Practices conducted a survey in November 2005, targeting a broad spectrum of organizations. Representatives of 87 leading companies responded. The results? Companies using identified “best practices” most consistently also had the highest rates of project success.

Why Align Projects with Strategy?

Nine out of ten corporate strategies devised on the executive level never come to fruition. One reason for this is found in a survey conducted by the Society for Human Resource Management and the Balanced Scorecard Collaborative: 73 percent of polled organizations said they had a clearly articulated strategic direction, but only 44 percent of them communicated that strategy well to the employees who must implement it. These companies “are like a body whose brain is unable to tell it what to do.” Perhaps out of frustration with these failures, many companies are spending less time on strategy; research has shown that 60 percent don’t link strategy and budgeting, and 85 percent of management teams spend less than one hour a month discussing strategy.

Project management research has shown that most companies, far from having a coherent model for managing the projects as a
“portfolio,” have at best a vague idea how many projects they have in the pipeline, how much they will cost, how they will be staffed, or who is qualified to run them, making strategic planning an exercise in fantasy. Studies of the failure of customer relationship management systems confirm that lack of knowledge about one’s own company is a primary reason for project failure. Companies who do not know their starting position build future corporate plans not on a solid foundation, but on shifting sand. Furthermore, their leadership often does not understand what is wrong, or how to distinguish what needs fixing.

A glance at the impact that the Balanced Scorecard has had upon businesses gives us some clues. The scorecard emphasizes the linkage of measurement to strategy. The tighter connection between the measurement system and strategy elevates the role for nonfinancial measures from an operational checklist to a comprehensive system for strategy implementation. For the first time, the details of the project portfolio (what the Balanced Scorecard creators call the “strategic initiatives”) become important to a company’s strategic thinkers.11

How Alignment Resolves Project Management Problems

Many studies have cited the lack of executive support as a key contributor to project failure. Project managers complain that their projects do not receive the resources they need. Projects completed “successfully” by project management standards (on time, on budget, to spec) have been considered failures because they did not address a business need. All of these issues are alleviated in a company that ties strategic planning to portfolio selection and project execution.

Strategy & Projects: Research Findings

The Strategy & Projects report was the initial product of a three-part research project. Part One was a review of management literature to develop a list of practices for aligning projects and corporate strategy. We first identified those practices that lead to high performance through a search of the literature on the integration of strategy execution, portfolio, program, project, and performance management.
This research revealed a set of best practices that we organized into a framework adapted from the McKinsey 7S framework. The elements included:

1. Governance
2. Processes
3. Strategy Management
4. Project Portfolio Management
5. Program/Project Management
6. Structure
7. Information Technology
8. People
9. Culture

Best practices were defined under each process area, based on the management research reviewed. These practices were used to develop the questions in the survey. The goal of the survey was to learn whether or not organizations that exhibit these practices are, indeed, high performing, to confirm whether or not the practices identified are really “best practices,” and to identify those practices that are most critical to the success of the organization. Participants rated their organizations on the frequency of their use of the best practices against a 7-point scale, where 1 = “not at all” and 7 = “to a great extent.” Members of the Center for Business Practices Research Network (senior practitioners with knowledge of their organizations’ project management practices business results) were invited to participate in a Web-based survey. Of 87 respondents, 84 completed the survey in its entirety. We compared high-performing organizations, low-performing organizations, and all organizations, focusing on whether high-performing organizations exhibited the identified best practices more than the average of all organizations and whether or not low-performing organizations were below average in exhibiting these practices.

*These seven process areas were later refined into a framework for integrating project management principles with strategic management across the enterprise. The results of this framework development were published as Seven Steps to Strategy Execution (Center for Business Practices, 2007).
stakeholders. The survey asked not only about the success of project management by conformance to schedule, budget, requirements, and so forth, but also about the overall success of the organization. Practices related to the organizational value of project management, such as the rational allocation of project resources, the skillful selection and prioritization of projects, and the alignment of projects to business strategy, are being supported today by organizations increasing use of portfolio management systems and processes. As project management becomes more and more essential to the achievement of strategic organizational goals, these practices will gain in importance for all project stakeholders. The performance measures included:

- The organization’s strategies are executed according to plan.
- The organization’s shareholders are satisfied.
- The organization is financially successful.
- Projects are completed on schedule and on budget.
- Project customers are satisfied.
- Project resources are allocated optimally.
- Projects are aligned to the organization’s business strategy.
- The organization works on the right projects.

Participants rated their organizations on the frequency of their achievement of these measures against a 7-point scale, where 1 = “not at all” and 7 = “to a great extent.” Organizations termed “high-performing” in the results reported better-than-average performance in all areas measured. In particular, high-performing organizations are significantly better than average in allocating project resources optimally, followed by completing projects on schedule and on budget, and executing strategy according to plan. Low-performing organizations are significantly poorer than average in allocating project resources optimally, followed by completing projects on schedule and on budget, and satisfying the organization’s shareholders. These results are displayed in Figure 1.1.13

**Key Findings** A significant finding was that the results confirmed the best practices proposed by the management literature. This underscores the value of using the best practices outlined in the *Strategy & Projects* in executing an organization’s strategy. High-performing
organizations use best practices in all areas more than other organizations, consistently and significantly. Low-performing organizations consistently underutilize the best practices in all areas.

The Strategy & Projects Framework

Governance is the policy framework within which an organization’s leaders make strategic decisions. With an effective governance framework all strategic decisions throughout the organization are made in the same manner. Each level within the organization must apply the same principles of setting objectives, providing and getting direction, and providing and evaluating performance measures. Using a common governance framework ensures that decisions are made the same way up and down the organization.

Perhaps not surprisingly, the most often used governance practice by high-performing organizations in the study is having a well-defined strategy. Let’s examine the strategy management process, and look at the best practices identified.

Strategy Management  Strategy management moves the organization from its present position to a future strategic position in order to exploit new products and markets. Strategy management is accomplished
through the application and integration of strategy management processes, such as mission-vision formulation, strategy formulation, planning, execution, and monitoring/control. Best practices identified for strategy management include:

- Strategy performance is measured, compared to objectives, and activities are redirected or objectives changed where necessary.
- There is an understanding of the impact of projects or project management activities on the creation and implementation of strategy.
- The organization’s strategic plans cascade down from corporate strategy to business unit strategy to portfolio, program, and project strategy.
- Corporate and business units assemble a strategic portfolio of programs and projects, and measure the strategic contribution of a program or project and adopt or reject programs/projects based on this information.
- As strategy cascades down the organization, performance measures are established at each level (business unit, portfolio, program, project) to link up with the strategic performance expectations of the entire company.

The most often used practice by high-performing organizations is having strategic plans that cascade down from corporate strategy to business unit strategy to portfolio, program, and project strategy; conversely, using project and program performance feedback to manage strategy execution is also a best practice engaged in by high-performing companies. The use of these practices also makes the difference between high performance on the enterprise level and just getting by. This is demonstrated in Figure 1.2.

*And, the Best-Practice Structure?* Corporate strategy affects the choice of organizational structures; likewise, organizational structures are important to the execution of corporate strategy. To execute strategy effectively, managers must make sound decisions about structures and develop methods or processes to achieve the needed integration of structural units. Organizational structures take many forms, each affecting the speed at which change can be brought about. They include line and staff structures, functionalized structures, matrix structures,
multidimensional matrix structures, strategic business units, laissez-
faire structures, and virtual structures (listed here in order of their
increasing ability to adapt to rapid changes in strategic direction
demanded by changing market conditions). The best practices identi-
fied include:

- A strategic (enterprise) project office (sometimes called the
  Office of Strategy Management) plays a role in linking the
  organization’s projects to its strategic plans.
- The company has an organizational structure (strategic proj-
  ect office, office of strategy management, strategic steering
  committee, etc.) that is responsible for managing strategy
  execution.
- Project management is clearly established and embedded
  within the organization’s business management structure.
- Information about strategy and projects flows freely between
  business units facilitating strategy execution.

The most often used practice by high-performing organizations is
having project management clearly established and embedded within the
organization’s business management structure, and, for most companies,
this naturally translates into a Strategic PMO. The SPMO also plays a key role in another best practice: making a focus on strategy execution an important part of the organization’s culture.

*Top 10 Best Practices that Set High Performers Apart*  When it comes to aligning projects with strategy, best practices were used significantly more often by high-performing organizations than other organizations. Information technology best practices, in particular, set high performers apart. The practices are listed in order of their significance.

- IT tools integrate strategy execution management, portfolio management, program/project management, and performance management functions.
- IT tools are used to develop alternative strategic and project portfolio scenarios.
- Project management is clearly established and embedded within the organization’s business management structure.
- IT tools provide information on the availability of resources.
- Senior management consistently rewards successful project behaviors.
- The enterprise project office allows the organization to manage its entire collection of projects as one or more interrelated portfolios.
- Program/project performance feedback is used for managing strategy execution.
- IT tools provide the capability to monitor and control risks, issues, and financials across portfolios.
- Project management is valued throughout the organization.
- The company has an organizational structure (strategic project office, office of strategy management, strategic steering committee, etc.) that is responsible for managing strategy execution.

As we continued to follow up on the findings summarized above, one striking, though admittedly, anecdotal correlation kept popping up: Nearly every organization in the top 20 performers is the recipient of at least one and, in some cases, many awards specific to their field of endeavor. Coincidence or proof of the power of aligning projects with strategy?
Best-Practice Examples

The Strategic PMO was a relatively new phenomenon in organizations when the first edition of this book appeared; few best-practice examples were available to use as templates. At the time, we predicted that the development of the SPMO as a feature of the modern organization would be one of the most exciting trends in organizational development this decade. However, we were unprepared for the speed and enthusiasm with which companies would adopt the SPMO framework and begin optimizing it for their industries and corporate environments.

In 2006, impressed by the way the PMO’s influence was expanding throughout organizations, we initiated a competition to honor Strategic PMOs that were displaying not only our recommended practices, but often going them one better. The PMO of the Year competition, now in its fifth year, has brought public attention to PMOs that perform critical, strategic functions: PMOs with names like “Office of Strategy and Planning,” PMOs with directors who are at the vice president level or even function as Chief Project Officers. In Appendix B, short case histories of the award winners from 2007 and 2008 are showcased.

Notes

10. J. Hope and R. Fraser, “Figures of Hate: Traditional Budgets Hold Companies Back, Restrict Staff Creativity and Prevent Them from Responding to Customers,” Financial Management (February 2001).