

PMO Best Practices Are No Longer Good Enough

Strategic Perspective and Dynamic Planning: The Key to Driving Greater Business Value

WHAT YOU DON'T KNOW CAN HURT YOU

Traditional approaches to Portfolio & Project Management (PPM) are simply not delivering the results that today's businesses require. In fact, poor PPM performance could be costing your business up to 46% of the planned ROI from your project investments. As a result, many Project Management Offices (PMOs) and PPM teams are feeling the pressure from top management and executives to find better ways to clearly demonstrate their value to the business.

For a variety of reasons, many of today's PMOs are hard pressed to provide the type of insight that executive management might be interested in knowing, including such key information as:

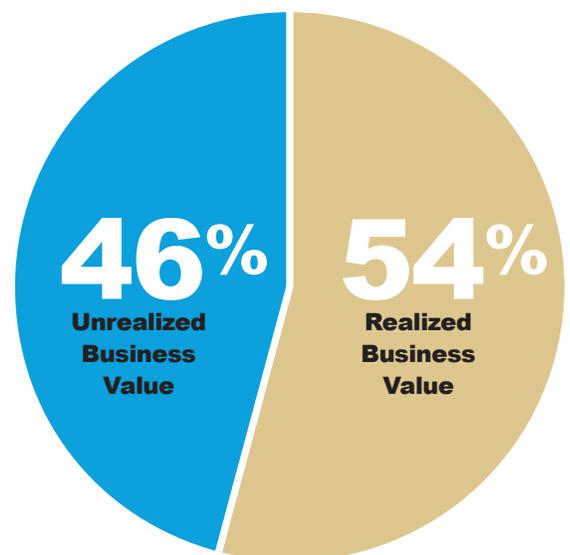
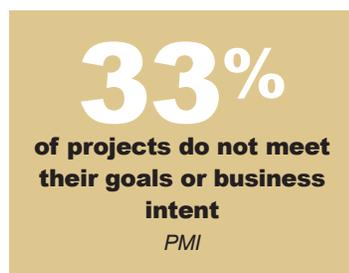
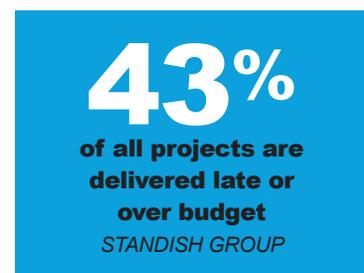
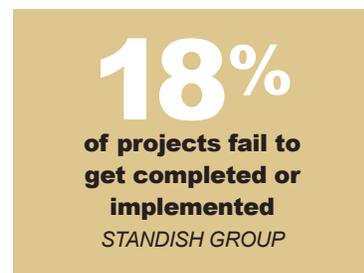
- Is our organization getting the appropriate ROI from every project in its portfolio?
- Can we effectively gauge financial performance of every project?

- Are the investments in each project in line with our overall corporate strategy?
- What is the strategic value of our portfolio?
- Are we utilizing our discretionary budget in the best way?
- Do we know how much we're spending in aggregate on projects and programs?

If your organization struggles with any of those questions, perhaps it's time to consider how the transformation from a traditional to an enterprise-focused PMO can provide executive leaders with the information and insight they require. This transition to an Enterprise PMO is essential in elevating the PMO's contribution from simply being a tactical player to becoming a strategic partner for executive leadership, which in turn helps to drive greater value to the enterprise.

THE STATISTICS ARE ALARMING

Traditional PPM is failing to deliver anticipated results.



STATUS QUO NO LONGER GOOD ENOUGH

There was a time when simply managing project execution (e.g. scheduling, resource management, etc.) was all that was needed to ensure that the PMO was delivering value. That's no longer the case. Despite many organization's best intentions in attempting to knit together disparate processes across the enterprise, study after study concludes that investments in traditional PPM fail to deliver the anticipated results – with the Project Management Institute (PMI) recently reporting that 33% of projects fail to deliver their planned business value. These are real concerns, but why are they happening?

Both Gartner and the Standish Group report low project success rates while research conducted by UMT360 finds that the companies who are failing to realize the planned business value from project portfolios are facing three main problem areas – Annual Planning, Project Success Rates and Budget Utilization.

A TRIFECTA OF BUSINESS VALUE EROSION

Problems in any one of these areas alone can have detrimental effects. But when taken together, they comprise what amounts to a perfect storm that can severely hamper any organization's effectiveness.

- **Problems with Annual Planning** – Most organizations have adopted an annual planning methodology, in which teams analyze potential investments / projects to be included in the next fiscal year. The overarching problem with this process is that the business case for each investment often includes unreliable estimates. These can have a significant impact on portfolio value. When project cost estimates are inflated, projects are excluded from the selected portfolio based on varying budget constraints. Unless those decisions are revisited throughout the year, that value may never be recaptured.

- **Project Success Rates** – Many companies struggle to deliver projects on time and within budget. According to The Standish Group, 18% of projects fail to get implemented and 43% of projects are late and/or over budget. Gartner research finds that one out of three completed projects experience cost overruns. Obviously project success rates have a significant impact on the resulting value realized from the portfolio. Failure to implement a project results in no business value. Cost overruns can prompt PMOs to cut scope and cancel projects to stay within budget constraints, again, eroding the potential business value.

- **Budget Utilization** – Surprisingly, many organizations fail to spend – or effectively utilize – all of the budget allocated during the year, instantly eroding even more planned business value from the portfolio. Some common reasons for this under-spend include:

- *Failure to start planned initiatives.* Resource constraints and poor management often result in projects not being started, which obviously impacts portfolio value.

- *Unplanned carry-overs.* Projects that slip into the next planning period result in budget shortfalls for the current year, and worse still, consume funds earmarked for other future projects.

- *Poor forecasting of remaining costs.* Funds are often “held hostage” by project managers who forecast that they will require 100% of the allocated budget, only to confirm too late in the year that they don't need it all. This often results in Q4 budget utilization nightmares leaving the PMO little time to reallocate those under-utilized funds to projects already under-way, or to new initiatives, either of which could deliver greater business value during the current year.

This trifecta of business value erosion affects each organization differently, but one thing is certain. Merely maintaining the status quo can expose your organization to the very real threat of eroding business value from a myriad of causes. In response, forward thinking PMOs are adopting methodologies, approaches and tools that not only address these issues, but position the PMO as a strategic partner responsible for optimizing scarce resources and maximizing the business value realized from project investments.



The statistics don't lie 18% of projects fail to get completed. 33% of completed projects either have cost overruns or fail to meet their objectives. And a staggering 43% of projects are delivered late or experience overruns.

ADOPTING A MORE STRATEGIC MINDSET

With the continued and growing threat of the erosion of business value, it's imperative that the PMO look for new approaches to ensure that value is realized. An Enterprise PMO must look beyond managing just the tactical aspects of project execution by elevating projects and programs to the level of strategic business investments. This

important shift in thinking requires that investment planning and controls be tightly integrated with PPM, ensuring that the business is better able to gauge the economic impact of poor project performance and take timely, corrective action as needed to maximize business value. Integrating investment planning and controls across the PPM lifecycle is crucial, as it enables the PMO to become truly enterprise focused by understanding how budgets are being utilized throughout the year.

Transitioning to a strategic mindset may initially feel uncomfortable to those who have been primarily focused on the tactical aspects of project management. But rest assured that taking a more strategic perspective does not dispense with the need for continuously improving project delivery capabilities that have traditionally made up the lion's share of PMO responsibility. Indeed, the key to delivering greater value is in combining superb tactical execution with an enterprise-focused strategic mindset.

INADEQUATE TOOLS COULD BE HOLDING YOU BACK

Adopting a more strategic orientation is important, but it's only the first step. To take full advantage of this new approach, other changes are required as well. Reliance on inadequate software tools is often the reason companies fail to successfully integrate investment planning and controls into the overall PPM lifecycle. These tools traditionally include:

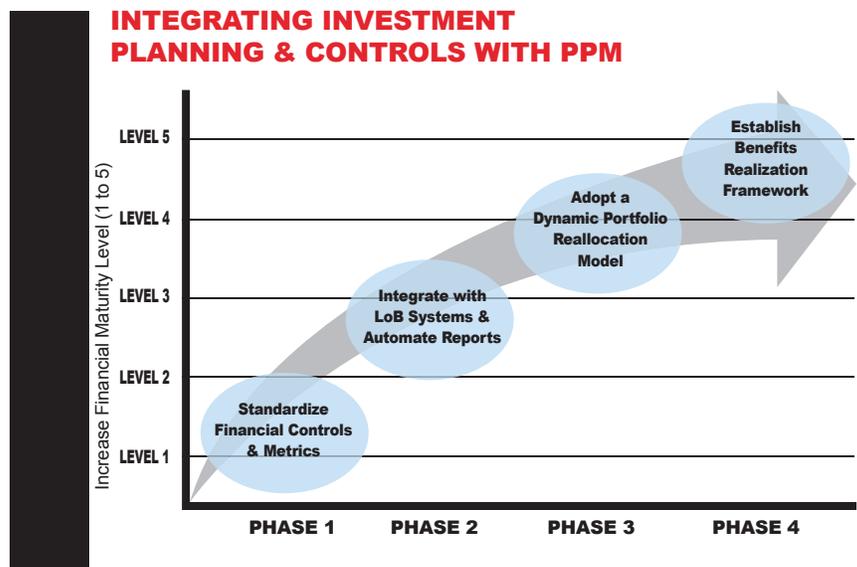
- **Excel** – while it's easy-to-use and ubiquitous throughout the enterprise, it is disconnected, difficult to govern and prone to hidden input errors
- **ERP** – these solutions are great for finance teams but are generally not available or easy-to-access for PPM teams and don't provide full financial transparency across project + programs
- **Project Management Tools** – these tools are strong at execution-oriented project and resource management capabilities but lack the sophistication to manage project + portfolio financials

It's clear something is missing from this traditional set of tools. What's required is a solution that integrates investment planning and controls across the PPM lifecycle. This can eliminate the need for Excel entirely, while also seamlessly bridging the gap between ERP and PPM systems. As a result, organizations enjoy the transparency and financial insight needed to make informed decisions, enabling the PMO to focus on analysis and take corrective action rather than manually reconciling data and building reports.

INTEGRATING INVESTMENT PLANNING & CONTROLS WITH PPM

While there's no one-size-fits-all approach to integrating investment planning and controls with PPM, many organizations have found success with a phased approach:

- **Phase 1:** The first step is to standardize financial controls and metrics across the entire project lifecycle. This enables companies to start capturing more robust business cases to streamline capital planning and effectively track financial and project performance to derive variance metrics.
- **Phase 2:** Connect the finance and PPM teams by integrating ERP systems with project management. This drives increased data integrity and automates the process of producing management reports, helping the PMO to focus more on analyzing the portfolio and taking corrective action.
- **Phase 3:** Having established a strong financial management foundation, PMO leaders can now focus on delivering increased business value. Armed with better and more real-time performance data, they can help executives effectively reallocate funds across the project portfolio to optimize capital spend and drive more ROI.
- **Phase 4:** The ultimate stage of financial maturity is implementing a framework for benefits realization and measuring whether projects achieve their expected returns. Understanding what success looks like not only enables organizations to more effectively manage their current portfolios, but also helps drive greater accountability and often encourages more realistic and reliable estimates.





But one thing is certain – however your organization decides to manage the annual planning process, if the goal is driving increased business value, the days of “set it and forget it” are clearly over.

BEYOND ANNUAL PLANNING – ADOPTING A DYNAMIC REALLOCATION FRAMEWORK

A more strategic and integrated mindset backed with innovative tools, drive a more enterprise-focused process. Annual planning can vary greatly from one organization to the next, so defining what that might look like for any particular organization is a discussion unto itself. But one thing is certain – however your organization decides to manage the annual planning process, if the goal is driving increased business value, the days of “set it and forget it” are clearly over.

A truly enterprise-focused PMO recognizes the inherent weaknesses of traditional annual planning. With an integrated and dynamic approach that leverages annual planning while continuously evaluating the portfolio throughout the year, the PMO can analyze where opportunities exist to extract more value, cut losses or generate net new opportunities for increasing ROI. Since time-consuming tactics such as status reporting are now automated, PMOs can spend more time analyzing data to inform decisions around reallocating budget throughout the portfolio in a timely manner.

Dynamic planning enables the organization to continue monitoring the progress of each project through timely updates, informed by stronger and more accurate forecasting. Automated reporting helps identify project status and variances and provides visibility into change requests by project and across the portfolio. At the portfolio level, the organization can now make agile decisions based on the realities and changing circumstances, approving

redirects or incremental funding, releasing budget and funding new investments, optimizing spend and maximizing business value.

THE FINAL STEP: ENCOURAGING A CULTURE OF EMPOWERMENT

But in order for this new dynamic enterprise-focused process to truly deliver value, PMOs must ensure that project managers provide accurate forecasts regarding remaining costs. In many organizations, project managers who are asked to forecast costs simply subtract actuals from budget and call that a forecast. This of course is not a true forecast, but merely a calculation of how much of the originally projected budget is remaining. It does nothing to help the PMO understand how much the Project Manager (PM) will actually need to spend to complete the initiative.

Better training can obviously help PMs improve their forecasting skills, but there’s often a larger cultural issue that needs to be overcome before PMs feel empowered to provide honest and accurate forecasts. In many organizations, the culture favors PMs who come in significantly under budget vs. one dollar over budget. The fear of being asked to explain to an executive why a project has cost overruns or needs more money results in many PMs playing it safe and inflating estimates and forecasts, while keeping information and data that might contradict their estimates close to the vest.

For the dynamic process to be truly effective, project managers must feel empowered to honestly and openly advocate for what’s in the best interests of the enterprise. That means that sometimes, they



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might need to ask for more money, and should feel confident that their request will not be held against them or seen as a failure.

In turn, they also need to trust that they won't be adversely affected if they freely release un-used or un-needed funds to be re-invested across the portfolio. For the PMO to truly become a strategic partner with executive leadership, traditional attitudes must give way to a culture of openness, empowerment and trust. This culture shift is made much easier when the systems supporting the PMO are in place to provide accurate data and valuable insight to the entire enterprise.

CREATING A VIRTUOUS CYCLE

With this cultural change in place, the PMO begins to see a transformation across the business. PMs, now armed with more accurate data, feel empowered to accurately forecast remaining costs. With greater trust in the data and the process, the PMO can more confidently make decisions around releasing under-spend, redirecting that budget to other projects and assigning excess or un-used budget to new projects that increase the business value of the entire portfolio.

By leveraging the natural tactical strengths of the traditional PMO role, and infusing into that the strategic importance of integrated investment planning and controls across the entire PPM lifecycle, the Enterprise PMO can start to have broad and substantive impacts, which include:

- Delivering increased visibility across all enterprise investments throughout the PPM lifecycle
- Consolidating enterprise requests into a central repository, with standardized business case templates to streamline capital planning
- Building an objective framework to link

initiatives to business priorities and gauge strategic alignment

- Connecting disparate systems and processes to automate and streamline status reporting – enabling the PMO to spend less time manually reconciling data and more time on portfolio analysis
- More reliable forecasting which provides insight into remaining costs and improves the accuracy of variance analysis
- Standardizing the governance processes to facilitate and approve incremental funding requests
- Adopting a dynamic approach to reallocate funds throughout the year which improves budget utilization and maximizes ROI
- Establishing a benefits realization framework to measure results and drive accountability
- Capturing and evaluating lessons learned to identify improvements to PPM governance processes

The combination of a strategic mindset that takes into account investment planning and financial controls, better tools that help integrate data and processes across the enterprise, and a dynamic process that enables more agile decision-making can lead to a cultural shift that literally transforms the PMO into a strategic partner.

Interested in more information on the strategic transformation of PMOs? UMT360 helps to digitalize investment planning and controls across the PPM lifecycle, delivering the financial transparency and intelligence needed to make informed decisions to maximize ROI from every dollar invested in projects. To learn more, visit www.umat360.com.