

A Powerful and Centralized
Way for Organizations
to Manage Projects

THE PROGRAM MANAGEMENT OFFICE ADVANTAGE

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Lia Triana, Paul Dwyer, Ph.D. and Mohsin Habib, Ph.D.



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A Powerful and Centralized Way for
Organizations to Manage Projects

Lia Tjahjana, Paul Dwyer, and Mohsin Habib

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*To our better halves:
David Roazen, Susan Dwyer, and Rabnuma Habib
With love and gratitude*

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Boston

May 18, 2009

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Introduction

For FAS Inc., a large financial advisory firm in downtown Boston, having hundreds of projects running at the same time is the norm. In other words, for CEO David Strassen and the senior project managers, Kerry Murphy and Bill Clements, having a headache is a part of their daily routine. As Bill puts it, “Every day, I have to play a game with my fellow project managers called ‘beg for bodies.’ In this game we meet and allocate our department staff to project teams. We use a spreadsheet to do this. The sheet tells us that we are overallocating everyone. It also tells us that even if they were available, we are out of budget. But still we play the game.” They all feel that their projects are always restricted by cost, time, and available resources—ticking time bombs that can explode at any time. When failure is not an option, the pressure to successfully complete the projects takes its toll on some of the project managers.

Does the situation sound familiar to you? If yes, then a Program Management Office (PMO) might be the solution to your problem. This book introduces the concept of having a centralized office that manages the running of multiple projects at the same time and that has the aim of achieving an optimum performance for the whole organization. Throughout this book, we will draw examples from FAS Inc., which is based on a real-life company, so that we can learn from its experience in finding project solutions through the PMO.

Just like FAS Inc., to stay ahead of competitors in today’s complex business environment, an organization must constantly respond to challenges. Organizations are always required to be both reactive and proactive to changes coming from the inside and outside, such

as competitors' moves, changes in regulations, internal restructuring, and so on.

More often than not, responding to all of those challenges results in the running of multiple projects at any one time. The complexity of such a situation creates a number of issues, such as the following:

- *Scarcity of Resources.* Every organization, no matter how prosperous it is, has limited access to resources, be it human resources, financial funding, or time. With such limitations imposed on them, organizations must effectively allocate their resources among a number of different projects.
- *Inconsistency in the Management Process.* Inconsistency between one project and another is a common problem that plagues a lot of organizations, especially those whose project management capabilities are not yet mature. They are faced with difficulties in consistently measuring the performance of various projects. For example, Project A and Project B are two very similar projects with very similar outcomes. However, due to the lack of a PMO in the organization, these projects are managed differently with different performance metrics. As a result, Project A is deemed a failure and Project B a success, even though that may not be the case if a consistent measure were applied to both projects.
- *Lack of Coordination Between Projects.* With multiple projects running at once, a company is confronted with the difficulty of monitoring each project's success. It is important to be aware of how a lack of coordination will inevitably create disruptions in the organization. Examples are those projects that might have slipped "under the radar." While still costing the company money, they no longer deliver.
- *Difficulty of Selecting Projects That Are Aligned with the Organization's Vision and Mission.* Most organizations are confronted with this difficulty. Without a proper mechanism,

irrelevant projects might be approved instead of those that are more valuable.

The running of multiple projects without the existence of a centralized coordinator will almost certainly result in a number of issues, such as these. Such problems interfere with the efficiency and effectiveness of an organization's business operation. As we all know, an organization that is not equipped to handle the challenges of today's competitive environment will soon lose its ability to survive in the market.

Objectives

The importance of having a proper project governance has been highlighted by a number of researches: A team from MIT Sloan Schools' Center for Information Systems Research found that "firms with superior IT [information technology] governance had more than 20% higher profits than firms with poor governance given the same strategic objectives" (Weill and Ross, 2004).

According to Gartner Research, the world's leading information technology research and advisory company, "IT organizations that establish enterprise standards for project management, including a project office with suitable governance, will experience half the major project cost overruns, delays, and cancellations of those that fail to do so" (Gartner Research, 2003).

In other words, Program Management Office (PMO)—also known as Project Center of Excellence, Project Management Group, and many other similar names—offers the solution. *The Program Management Office Advantage* introduces the PMO from a business perspective, as opposed to the narrow and more specific project perspective. Not only does it focus on the PMO's internal project-related activities (i.e., PMO's roles in monitoring projects' progress, implementing project management standards throughout the organization,

selecting and auditing projects, and so on), it also discusses how the PMO will fit best into the organization (i.e., the justification to have a PMO, what needs to be taken into consideration before setting up the PMO, how to align the PMO with the organization's vision and mission, and so on). The concepts offered in this book can be used as a starting point for the readers to create the PMO that will serve their organizations best.

With emphasis on practicality, this book deliberately leaves out the complicated formulas and theoretical metrics associated with the technicalities of project management, which can be found in other, more advanced books.

In addition, the Project Management Institute's Project Management Body of Knowledge (PMBOK) and the UK Office of Government Commerce's PRINCE2—the de facto industry standards for project management theory—were referenced closely throughout the book as the main resource to base our overall PMO concept on.

Who Should Read This Book?

It is interesting to note that, although PMO is mainly pioneered (and widely used) in the IT industry, its practice is applicable to various industries, from construction to finance, from health care to education. The same goes for the concepts and ideas we offer here. Because of their generality, readers will easily be able to adopt most of them and adapt the rest to suit differing industries.

Regardless of the occupational field, however, we believe this will be of special interest to:

- Project managers who are already faced with the challenges of managing multiple projects at once
- Functional managers and company executives who are interested in improving the efficiency of the running of projects in their organizations

- General readers with an interest in project management and in the use of the Program Management Office (PMO)

How This Book Is Structured

The book is divided into five parts, paralleling the different aspects of a Program Management Office.

- The first part begins with a general overview of Program Management Office: key definitions used in the book, what a PMO does, the benefits of adopting a PMO, factors to consider before creating one, how a PMO relates to other parts of the organization, and so on.
- Assuming that by the end of the first part we are successful in convincing you of the useful purposes of a Program Management Office, the second part will discuss the PMO's role as a coordinator in detail. We outline all the major functions of a Program Management Office, from providing project management training to creating and implementing a standardized project management process.
- The third part discusses the systems and processes involved in the interaction between the PMO and the projects: for example, the processes involved in monitoring a program, the processes in selecting and auditing projects, and the processes in choosing the most suitable system to support the PMO.
- The fourth part looks at the Program Management Office as an independent business division. With sufficient understanding of the various aspects of a Program Management Office discussed in the preceding sections, the readers will then be introduced to the required steps in establishing and running a PMO. This includes preparing for the PMO (facilities wise, establishing governance, and envisioning the right type of

leadership), implementing the PMO into the organization (i.e., dealing with resistance, which may be encountered), and measuring the PMO's performance through key performance indicators (KPIs) and audit processes.

- The fifth part consists of a brief chapter on the future direction or trend of the adoption of PMO across various industries. As organizations will continue to evolve, so will the PMOs morph their functions and roles to suit the organizations they serve. In this chapter, we discuss our vision of a future PMO and the journey to get there.

This book is structured in such a way that it can be a starting point for people to become familiar with Program Management Office. Not only does it provide the big picture of the concept, it also provides practical examples and templates that are general enough to be understood easily, yet detailed enough to provide guidance. We hope that, after reading the book, readers would be able to pinpoint how a PMO can improve their organization's performance and understand what steps are necessary to make it happen.

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PART I

OVERVIEW

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Defining the Program Management Office

In the Introduction, we highlighted how a modern-day organization is challenged to be constantly on the move and to be proactive against the changes in the business environment, as well as how such a situation prompts the organization to run multiple projects at any one time, each responding to a different challenge. We then briefly discussed how a Program Management Office (PMO) provides the solution, which allows the organization to be more efficient and effective in running the projects. Given that, this chapter provides a general overview of what a PMO does, what benefits a PMO offers, and the PMO's role in both the project and business environments.

However, before we begin, it is important to clearly define the meaning of the terms we'll use, because understandably there is still a lot of discussion on the blurred line that distinguishes project, program, and portfolio, thus impacting the terms "Program Management Office" and "Project Office." After reviewing the use of the terms by various organizations, definitions provided by governing bodies, and our own experience, we decided to adopt the following list.

Key Definitions

Project A structured process established to deliver specific outputs within the applicable constraints (time, cost, and quality) while taking into consideration elements such as risks and resources. Projects have a start date and an end date. In an organizational context, projects are created as means to respond to business changes, which may be a result of changes from outside the organization (e.g., a competitor's new strategy threatening the organization's market share, thus prompting an aggressive marketing project) or from inside the organization (e.g., key personnel leaving the organization, taking their knowledge with them, thus prompting a Knowledge Harvesting project [discussed in more detail in Chapter 8]).

Program A structured process of managing multiple ongoing projects within an organization. The focus of Program Management is the alignment of ongoing projects with the goals of the organization; thus the aim of a program is to group related projects that warrant optimum coordination of resources at the most beneficial allocation for the organization. In contrast to projects (which have a definite end date), programs tend to be ongoing.

Portfolio Simply a collection of programs. Portfolio management is about selecting a combination of programs that will give the organization the most optimized profits at the lowest risk. The Project Management Body of Knowledge (PMBOK) defines that the programs of the portfolio “may not necessarily be inter-dependant or directly related.”

Project Office An administrative function of a project. A Project Office does not only provide key support to the project manager but also liaises with the Program Management Office to ensure that its project adopts the most current project management standards implemented by the PMO.

Program Management Office (PMO) An operation center that not only governs and supports projects from initiation to completion, but also plays an important role in improving an organization's project management capabilities. The ideal model for the PMO will greatly depend on the need of the organization and its ability to support it (discussed further in Chapter 3).

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Note that although the terms “program management” and “portfolio management” are often used interchangeably, for consistency, we will adopt the term “Program Management Office” instead of “Portfolio Management Office” throughout the book. Our experience shows that the phrase “Program Management Office” is more commonly used, and we decided to adopt a term that most readers will be familiar with. Additionally, the term “portfolio” may create ambiguity within an organization because the same term is widely used in the finance department.

PMO in Project and Business Environments

Although the existence of a PMO is based largely on project management, its influence goes beyond the project environment. In this section, we will discuss the interactions involving the PMO in both the project and business environments.

In the *project environment*, the PMO is responsible for improving the organization’s project management capability (see Figure 1.1). As the project authority, the PMO decides on the standard to be adhered to by all project participants. Its main role is to provide *centralized* monitoring and support for the projects and to bring them to successful completion. This means overseeing and liaising with the Project Offices (explained in more detail in the following chapters).

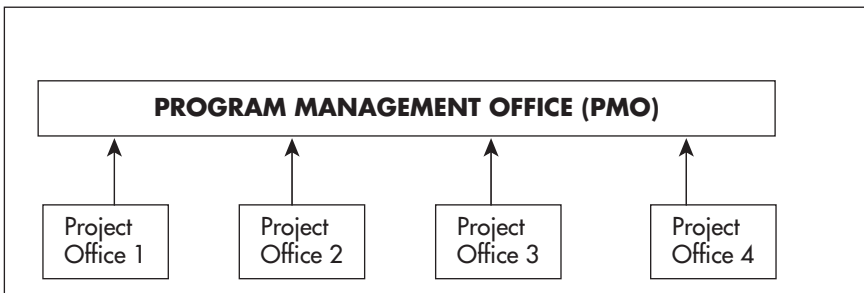


Figure 1.1 The Project Environment and its participants.

In the *business environment*, the PMO's role is to liaise between the business participants and the project participants (see Figure 1.2). For example, all business initiatives, once approved, will have to be implemented, in most cases, within a definite time period so that the impact can be immediate. At this stage, the PMO, in discussion with the business executives (i.e., the CEO, the CFO, or other departmental heads) will start the coordination with project staff to ensure that the business initiative is implemented within the allocated time, budget, and quality specifications.

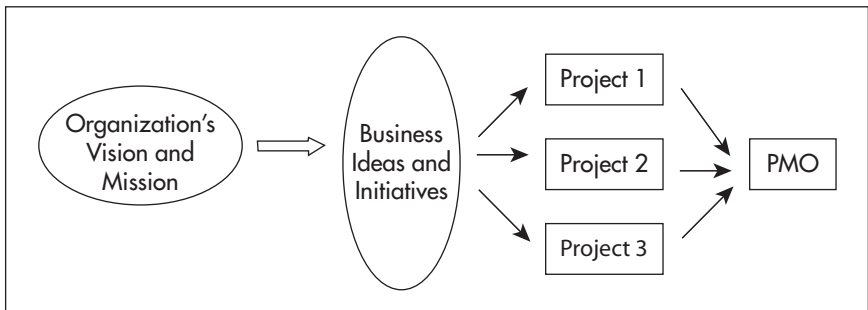


Figure 1.2 The Business Environment and its participants.

Benefits of a PMO

After reviewing the PMO's roles in both the project and business environments, we can see that the need for a Program Management Office is compounded by the following factors:

- Multiple projects result in competing demands for limited resources (people, space, infrastructure, and so on). Without the existence of a central organizer such as a Program Management Office, it is not easy to determine the best project for allocating resources.
- The degree of uncertainty from inside and outside the organization requires a flexible information flow to facilitate rapid and accurate communications among project participants.

- ❑ Interdependency among projects prompts centralized, high-level monitoring by a Program Management Office.
- ❑ Each project has its own management and administrative process, resulting in difficulties for an organization to measure the performance of one project against another.
- ❑ Lack of coordination among projects inevitably creates disruption in the day-to-day operation of the organization.

Program Management Office, as the central projects coordinator, has the main role in implementing a standardized project management process and procedure across the whole organization. Such standardization provides a solution to those problems, and it has a number of benefits to the organization, both projectwise and businesswise. Here are some examples of PMO benefits:

- ❑ It reduces the time and cost associated with setting up the project from scratch (thus avoiding “reinventing the wheel”).
- ❑ It facilitates a faster response to changes imposed by a competitive business environment and improves the timeliness of projects’ deliverables.
- ❑ It provides consistent means of measurement for all projects’ performance.
- ❑ As the conduit between the projects and business executives, a PMO provides an efficient channel for the escalation (thus the resolution) of project issues, and it helps make project risks visible.
- ❑ PMO assists business executives by providing a high-level view of projects (strategic alignment, benefits, and performance), thus assisting them in making decisions on resource allocation.
- ❑ It manages project interdependency by acting as the communication hub for the projects.

- The PMO provides consistent project management training, reducing the need to outsource to external consultants.
- As projects come and go, the Program Management Office facilitates the formal retention of knowledge.
- The PMO can group related projects into programs to make possible the efficient use of resources.
- It ensures that programs are executed in such a way as to adhere to company goals and objectives.
- The PMO facilitates each program by the provision of tools and resources to assist the management teams.
- It provides management reporting to alert teams of project status and potential issues.
- It furnishes risk mitigation assistance when the risk is identified.
- It improves overall business performance.

These examples offer a glimpse of how a PMO offers benefits that every organization must weigh. However, as will be discussed in the following chapters, an organization must first have a clear understanding of what it will require from the PMO. Afterward, it can justify its decision and obtain the support of project participants.

PMO Activities

Although PMOs vary from one organization to another, the activities performed are generally the same. Here are some of those activities, which will be discussed in more detail in subsequent chapters:

- *Project Resource Management.* The PMO is responsible for coordinating resources (human resources, equipment, space,

and so on) according to what each project demands and the amount of resources available (either from within the organization, from temporary resources, or through outsourcing).

- ❑ *Financial Management.* The PMO is required to produce a consolidated financial statement, compiled from each project, with a certain frequency (which could be weekly, monthly, quarterly, and/or yearly). The statement should contain information such as the actual budget and expenditure, as well as the projected budget and expenditure. In addition to monitoring the projects' progress, the information can also be used to determine funding allocation.
- ❑ *Vendor Management.* The PMO assists each Project Office with the management of third-party contracts with vendors.
- ❑ *Process Management.* The PMO standardizes and continuously improves the operational processes and procedures in the project environment.
- ❑ *Program Monitoring (Quality Management).* The PMO is responsible for monitoring the progress of each project in terms of schedule, scope, changes, cost, and quality. This is done through a gated approval process (discussed further in Chapter 12), the auditing process, and regular reporting to the PMO by each Project Office.
- ❑ *Project Selection.* The PMO assists the business executives with selecting projects that are aligned with the business by, among other things, identifying potential risks, reviewing the company's capabilities to undertake the projects, and the like.
- ❑ *Knowledge Management.* Knowledge management goes beyond managing data and documents. It also makes sure that all the knowledge gained and the lessons learned are not lost (i.e., by creating a project knowledge repository) when experienced personnel leave the company. More importantly, knowledge management is about making sure that the organization

cultivates its existing project knowledge, continuously improving it and sharing it as a part of the staff development process.

- *Communications Management.* The PMO develops and implements a communication plan that involves all the stakeholders (e.g., the Project Offices and the business executives and steering committees). The activities may include the dissemination of information, escalation of issues, and others.
- *Customer Management.* The PMO's customers are those working both in the project environment and in the business environment. To maintain customer satisfaction, the PMO needs to engage its staff in continuous service improvement activities (such as customer service training, launching a survey on customers' satisfaction, and so on).
- *Training Management.* A proper training program is essential to the success of the PMO. It will enhance the skill sets of employees, train them in best practices, build expertise, and ultimately enhance the organization's ability to execute. It is the PMO's role to work closely with various Project Offices as well as with the organization's human resource coordinator to create a training program that is consistent with the organization's strategic positioning.

Conclusion

Now that we have presented our case on the need for PMO, readers should realize that having a PMO in the organization is not a one-size-fits-all approach. In the following chapter, we will discuss how the shape of the PMO will largely depend on the organization's need and capability to support it. We will also look at what measures can be used to justify a PMO.

5 Things You Need to Remember from This Chapter

1. The definitions of project, program, portfolio, Project Office, and Program Management Office
2. The importance of PMO's liaison between the project and business environments
3. Issues that prompt the need for PMO for an organization to maintain its competitive advantage
4. The benefits offered by PMO to an organization
5. The various activities carried out by the PMO

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2 Justifying the Program Management Office

In the previous chapter, we discussed the abundant benefits offered by the PMO. It is no surprise, then, that the use of PMO as an integral part of an organization's success story is getting more and more common in large organizations such as Hewlett Packard, Bank of America, Morgan Stanley, and the U.S. Environmental Protection Agency (EPA), among many others. However, understandably, the establishment of a PMO requires a lot of investment, be it time, human resources, or money. Furthermore, the implementation of a PMO will result in big changes, such as changes to the organization's culture, structure, financial condition, and so on (discussed in the following chapters).

Because of the large impact a PMO has on an organization, it is important to realize and agree early on that the decision to set up a PMO should be a well thought-out business decision justified by the amount of return. Note that other important aspects have to be considered. For example, the PMO's capability level (i.e., its roles and authority) largely depends on the organization's needs and on the PMO's position in the organization's hierarchy, which is determined based on the most efficient interaction between the PMO and the rest of the organization. Given that, the decision-

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making process should go beyond the scope of monetary considerations.

This chapter looks at the various aspects to consider before justifying the need to establish a PMO in the organization. It also presents a viable method, the Cost-Benefit Analysis method, which attempts to quantify the cost and benefits related to the PMO, to help with the justification process.

## Factors to Consider Before Establishing a PMO

It is essential for the success of a new PMO that there be a clear understanding beforehand of what will be required from the PMO, as well as whether the investment to achieve those capabilities will benefit the organization. Answers to the following questions indicate the organization's capacity and capability to incorporate a PMO into their structure.

*Does the PMO fulfill the organization's needs?* This is the most important question to answer in justifying a Program Management Office. Typically, the larger the organization, the greater the need is for a PMO. Large organizations are expected to have multiple projects running simultaneously, and each project can have fairly complex tasks with widely ranging impacts. In those circumstances, the justification for having a PMO can be straightforward because the impacts of losing control over multiple projects is often more expensive than the investment required to establish and implement a PMO.

*Does the PMO fit the organization's goals?* Generally speaking, the underlying idea for any company is to develop competitive advantages in the existing industry vis-à-vis its competitors. These competitive advantages are manifested through projects. For example, realizing that there is still a gap in the market for a certain product, a company may decide to launch a product development

project to capture the market share. This makes projects a critical part in achieving the goals of an organization. Because the primary purpose of a PMO is to support the organization's strategies in achieving its vision and mission, there has to be a good fit between the company's plans and the PMO. Understanding the organization's aims impacts how the PMO will be introduced to the organization and how it will operate because it determines a number of things, such as:

- The appropriate level of capability and authority to allow the PMO to be most effective
- Whether the establishment of a PMO provides a suitable return on investment (ROI)
- How the PMO will make the organization more competitive
- The best place to position the PMO within the organizational chart
- How large the organization is—how big the PMO needs to be
- And so on

*Is the organization mature enough to handle the change? What is the organization's culture, and how will it react to the PMO?* An extremely important factor to consider when deciding to set up a PMO is the organization's culture and maturity. Culture can be a facilitator or a constraint. Just like every change that occurs in any organization, the creation of a PMO will face resistance from some people. Resistance could come from the (internal) project managers themselves, clients, vendors (external), or other stakeholders. Project managers may feel unnecessarily supervised by the PMO and hence resist such an authority, or they may simply try to protect their independence or avoid, in their opinion, more bureaucracies. It is incumbent on the top managers and the key managers to be the champions of the PMO and provide the support to make the change.

(More in-depth discussion on implementing a PMO is presented in Chapter 17.)

*Does the organization have the capability to establish and run the PMO?* Another important issue is the ability of the organization to equip the PMO with the required resources (financial resources, skilled staff, office space, time, equipment, sufficient project management competencies, business skills, and so on). It may be that the organization already has the capabilities and resources at its disposal and that they only need to get organized. Or it could be that the organization doesn't have the resources, in which case it will have to figure out ways to procure them. Although resource constraint is an immediate issue for most companies, it should not be a primary factor for considering a PMO.

*What will be required from the PMO?* Taking into consideration the organization's business strategic position, the decision makers need to define the PMO's goals/objectives, roles/functions, responsibilities, and authority. Having these items stated clearly ensures that the PMO can operate smoothly.

*How will the PMO fit into the organization?* The fit between the PMO and the organization's structure, culture, and operational processes is crucial if the PMO is to succeed. In terms of the PMO's role in the organization, the decision makers need to consider whether it is mainly a support function or a primary function, and whether it should be treated as a profit center or a cost center. As for the authority and reporting relationships, they need to weigh various factors before deciding where the PMO should be placed in the organization's hierarchy. A good balance must be struck between autonomy and dependence to optimize the PMO's performance. (More in-depth discussion of positioning the PMO within the organization's structure is presented in the next chapter.)

*What will the PMO require to operate? What will its strategic positioning be?* There is a wide range of factors to consider in answering this question. To be able to determine them, the decision makers need to consider both the internal and external environ-

ment of the organization. A number of factors from within the organization may affect the PMO's strategy and operation, such as the organization's geographic spread, the organization's value chain, and so on. There are also factors from outside the organization to consider, such as the competitors' position; market maturity; any political, legal, or social issues that may be prevalent in the PMO; and so on.

These questions are indicative of which direction an organization should take in preparing itself for a PMO. The readers are encouraged to think outside the box and be creative when questioning their own organizations' readiness for a PMO.

## Justification Method

Upon answering those provocative questions, if an organization decides to establish a PMO, it needs to justify its decision. One of the methods that can be applied to make the judgment is *Cost-Benefit Analysis*. Since a detailed explanation of Cost-Benefit Analysis can be found in numerous finance textbooks, we will provide only an overview of the method.

## Cost-Benefit Analysis

Cost-Benefit Analysis is a method to appraise the monetary value of a proposal by weighing the total expected benefits, both tangible and intangible, against the total expected costs, both tangible and intangible. However, the problem associated with such a method is quantifying a cost or benefit whose value is not readily available. For example, it will be easy to determine how much staffing the PMO will cost (estimated man-hours, estimated dollars per hour), but it will be difficult to forecast how much money the company will save in the future by adopting the PMO. At the end of the day, this method is still an estimate, with all the inaccuracies that come with it.

In the analysis, *cost* can be determined by allocating monetary

## Making a Case: Justifying the PMO



CEO David Strassen of FAS Inc. had seen his company grow ten-fold in the last five years. As a result of increased regulatory scrutiny on finance companies, the systems solutions and consulting services his company offered specifically to assist those clients impacted by changes to the financial accounting standard had been very popular. However, lately, as his organization was managing more and more projects, the clients were complaining that they were not getting the service levels they agreed to. Dave's director of sales, James Holland, was accusing the technical team of not knowing what they're doing.

The technical team, who seemed to lack morale, was constantly delivering late and over budget. The product rollouts always seemed to have missed major requirements. When discovered, the misses were hastily fixed by the development teams without management review, and this had led to unexplainable cost overruns. Many of the programmers complained to the systems manager, Bill Clements, of stress and were often heard saying that they had too many poorly defined projects to work on at one time, leading to mistakes and poor product releases. Bill brought this to sales's James Holland, but the response he usually got was, "The customers are the reason we have a job." Bill complained to Dave that the sales team constantly "sells stuff we don't do or can't do." His budget had been exceeded by \$300,000 last quarter alone. And he had just lost two of his best project managers, who no longer could stand the work pressure. "We have to come up with a solution, Dave," said Bill. Both Dave and Bill came across a PMO in an article in a project management magazine a while ago, and they thought this might be the solution to their problem.

Prompted by these problems and a constant headache from the people complaining to him, Dave decided to have Mackenzie & Co., a management consulting firm, come in and see what could be done to address some of the issues. After spending time on-site, Mackenzie suggested that the problems were not necessarily with his people, but with the processes they used, or the lack thereof. The firm determined that the company's activities could be split into three separate areas: expense reporting, international taxation, and specialty consulting. They recommended that Dave set up a program for each area and introduce a Program Management Office to run them. He liked the recommendations but knew he was not the person to carry them out. So he hired Paul Witten, a well-known program manager, to get the Office off the ground. (To be continued in the next chapters.)

values on the resources required to establish and run the PMO. These costs should be comprehensive and include those that are direct as well as indirect (e.g., travel cost, personnel cost, resource acquisition cost, and so on). Other types of costs, such as those to be discussed in this chapter, must also be considered.

Measuring opportunity cost (i.e., possible loss of profits due to the company's decision to invest in establishing and running the PMO instead of pursuing other opportunities) is always difficult and is usually an estimate. However, to get a full picture of the total costs associated with the PMO, the opportunity costs must be included (this includes both short-term and long-term costs). Recurring costs (i.e., regular cost such as electricity bills, staff salary, stationery purchases, and so on) and nonrecurring, one-time investment-type costs (e.g., investment to purchase equipment or fixed properties that rarely occur more than once due to their long life span) are other types of costs to be taken into account.

*Benefits* are positive outcomes that can be reasonably identified as the results of having a PMO in the organization (e.g., projects are run more efficiently resulting in cost savings, projects are selected more

effectively yielding higher return to the company, and so on). Monetary values can easily be assigned to some outcomes, but others may be more difficult to value. In such instances, it may be useful to refer to the historical data and to conduct analysis on the amount of monetary loss in the past caused by the lack of projects' monitoring, analysis on the number of projects completed within schedule in the past, how much improvement can be achieved with a PMO, and so on.

Similar to costs, both real (or actual) and potential benefits should be assessed. Recurring and nonrecurring benefits must also be captured to the extent possible.

## Example of Cost-Benefit Analysis: PMO Justification

Cost-Benefit Analysis typically adopts the time value of money. Bear in mind the financial concept of *discounted value*—the value of \$1 in the future will be less than the value of \$1 today due to inflation. Thus, monetary benefits that will occur in the future (note that the benefits from PMO are not always immediate) will have to be brought to today's value by using a discount rate. However, for the purpose of simplicity, the following example assumes that everything happens at time 0 (i.e., today, when all future values would have been discounted).

### Benefits

- |                                                                            |           |
|----------------------------------------------------------------------------|-----------|
| 1. Yearly savings from approving the “wrong” projects                      | \$300,000 |
| 2. Increased revenue from having a standardized project management process | \$190,000 |
| 3. Yearly savings from project costs that can be avoided by having a PMO   | \$80,000  |
| 4. Increased revenue from improving staff's project management skills      | \$50,000  |

### Costs

- |                                                   |           |
|---------------------------------------------------|-----------|
| 1. Yearly PMO staff's salaries                    | \$350,000 |
| 2. Yearly equipment and space rental and purchase | \$50,000  |
| 3. Yearly PMO training                            | \$50,000  |

Assuming that all of the benefits and costs occur at time 0, the net income for the organization is  $\$620,000 - \$450,000 = \$170,000$  (increase of revenue per year). This scenario justifies establishing a PMO.

## Conclusion

In this chapter, we have discussed the importance of justifying the establishment of a PMO. The next step, as will be discussed in the following chapter, is figuring out the PMO's level of capability and how exactly it should fit into the organization's structure.

### 5 Things You Need to Remember from This Chapter

1. How the presence of a PMO will greatly benefit an organization, and why it must be a justified business decision
2. The importance of knowing beforehand what the organization wants to get out of the PMO
3. How critical the issue of fit is to the success of the PMO, which has to suit the organization's culture, vision, and mission
4. The dependence of the PMO's capability level on what the organization can do to support it
5. An understanding of how to use the Cost-Benefit Analysis method, while realizing that it has its own strengths and weaknesses

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# 3

## The Program Management Office in the Organization

As we mentioned in the previous chapter, the justification for a PMO should be a well thought-out business decision. Once the organization decides that it needs a PMO, the next step is to consider the kind of PMO that will suit it best. To help answer that question, the organization must consider these two important aspects:

1. *The PMO's Capability Level.* What types of roles does the organization want it to carry out? What kind of authority, if any, should it have? Does the organization have the resources—time, money, people—to support the type of PMO it envisions?
2. *The PMO's Position in the Organization's Structure.* Where is the best place to locate the PMO so that its interaction with the rest of the organization is optimized?

This chapter will guide the readers to find the answers.

## PMO and the Organization's Structure

The introduction of a PMO will likely have an effect on the organization's staffing structure because it could result in a shift of authority and resources within the organization. Before we look at where a PMO will best fit, we will first look at the common organization structures. The Project Management Body of Knowledge (PMBOK) has broken this down into three types: *functional*, *projectized*, and *matrixed*.

### The Functional Organization

A functional organization is hierarchical, and the entire company is classified according to the specific functions performed (e.g., sales and marketing, accounting, human resources, finance, and so on). See Figure 3.1. In this structure, projects are undertaken on a departmental level. If multiple departments are involved, each is responsible for their own department-related tasks (i.e., the finance department will be concerned only with the financial aspect of the project, the human resources department will be concerned only with the staffing of the project, and so on). Any departmental communication within the project will be carried out by the departmental managers.

Functional structure works mostly in small firms having a few products and/or operating in a few markets. Such a structure promotes efficiency and quality because it creates specialists or professionals within each functional unit. As the firms begin to grow and the strategy becomes more complex, the functional structure can be less efficient and even problematic. The narrow specialization that is demanded by this structure can make individuals become too focused; potentially they can lose sight of customers' needs and other demands that are important for success.

### The Projectized Organization

The polar opposite of the functional structure, the projectized structure, will see teams that focus primarily on projects. See Figure 3.2.

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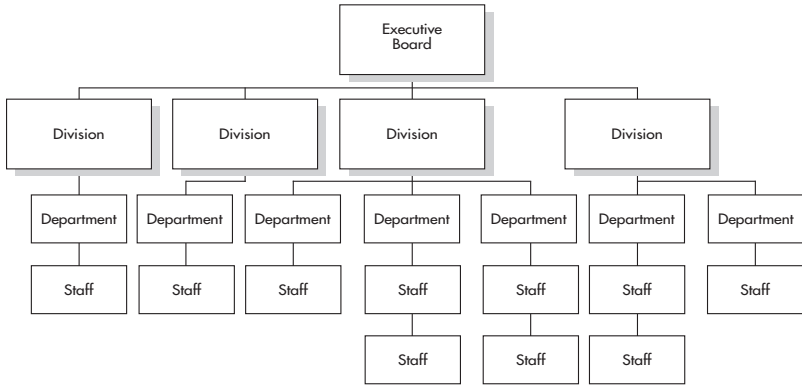


*Figure 3.1 Functional structure. From: Project Management Institute, A Guide to the Project Management Body of Knowledge (PMBOK® Guide)—Third Edition, Project Management Institute, Inc., 2004. Copyright and all rights reserved. Material from this publication has been reproduced with the permission of PMI.*

When firms are involved in multiple markets or have a large number of product lines that require cross-functional interaction, such a framework is appropriate for handling demands. In this structure, each project is run as a separate, autonomous unit, and decision making becomes timely and effective. The project manager, having total control of the allocated resources and budget, runs the group as a profit-and-loss center.

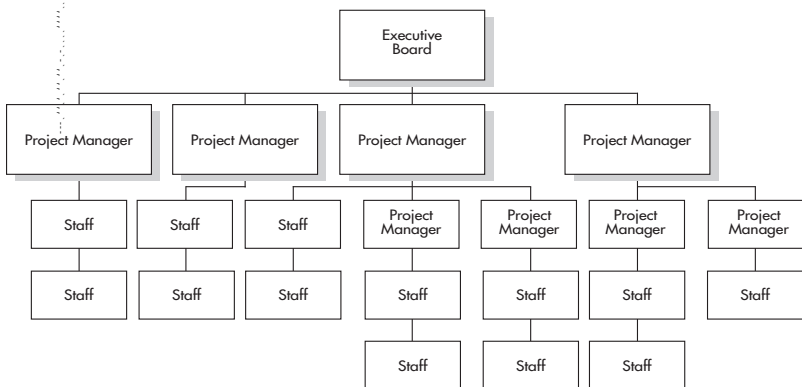


*Figure 3.2 Projectized structure. From: Project Management Institute, A Guide to the Project Management Body of Knowledge (PMBOK® Guide)—Third Edition, Project Management Institute, Inc., 2004. Copyright and all rights reserved. Material from this publication has been reproduced with the permission of PMI.*

Although there are significant advantages for having a projectized structure, the framework is not without fault. At the end of the day, there is a limit to the amount of resources available to the whole company, and, because resources are often allocated based on relative performance, the shortfall can generate internal competition among the divisions. Furthermore, keeping the divisions autonomous with full functional capabilities means that there will be a duplication of activities across the organization and that can be expensive.

## The Matrix Organization

Matrix structure is basically a combination of functional and projectized structure. It attempts to capture the benefits of both previously discussed structures. However, just like the other two structures, a matrix structure also has its own disadvantages. In a matrix structure, two reporting channels exist in parallel. For example, a certain Project A might need an accountant, who will be seconded from the finance department. In such a situation, the accountant will have to report back not only to the project manager of Project A, but also to the manager of the finance department. Needless to say, this may create confusion and competition for resources.

However, these disadvantages can be justified by the benefits: faster and better responses for unpredictable and complex challenges. Considering today's business environment, such a capability is necessary for an organization to sustain its competitive advantage. Understanding that the success of a matrix structure hinges on the firm's ability to share, constant negotiation and communication between managers are important. If implemented correctly, the matrix structure can foster a strong, more tight-knit organization.

The matrix structure is broken down into three types: weak matrix structure, balanced matrix structure, and strong matrix structure. Each has a varying degree of project orientation vis-à-vis functional orientation.

- Generally, a *weak matrix structure* (see Figure 3.3) sees staff from across the organization work on different projects but still report within the departmental hierarchy. No one is specifically assigned to be the project manager, and the person who gets to coordinate the tasks will have minimum control of resources and will not be responsible for the project budget. Individual staff within the project will report to their respective functional managers.
- A *balanced matrix structure* sees a project as having a project manager with more authority over resources and limited control over the budget (see Figure 3.4). However, the reporting hierarchy generally still moves along the functional lines. In other words, project managers are still working under a functional division and are reporting to the manager of that division.
- In a *strong matrix structure* format, the project manager is able to exercise considerable control over resources and budget (i.e., projects are managed by the project managers).

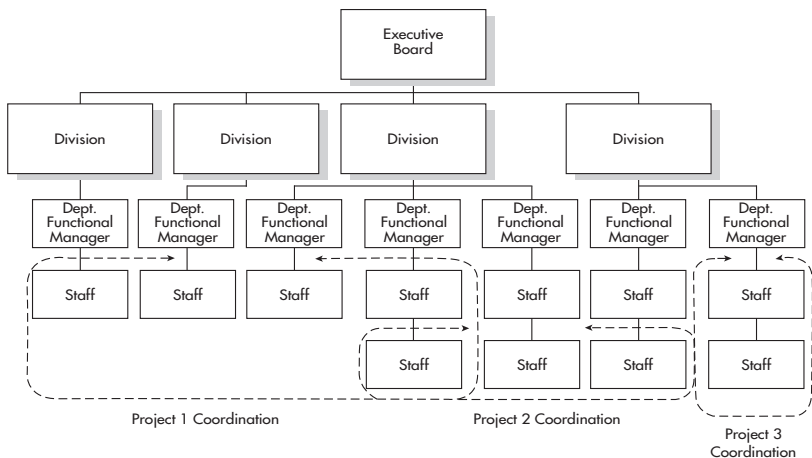


Figure 3.3 *Weak matrix structure*. From: *Project Management Institute, A Guide to the Project Management Body of Knowledge (PMBOK® Guide)—Third Edition*, Project Management Institute, Inc., 2004. Copyright and all rights reserved. Material from this publication has been reproduced with the permission of PMI.

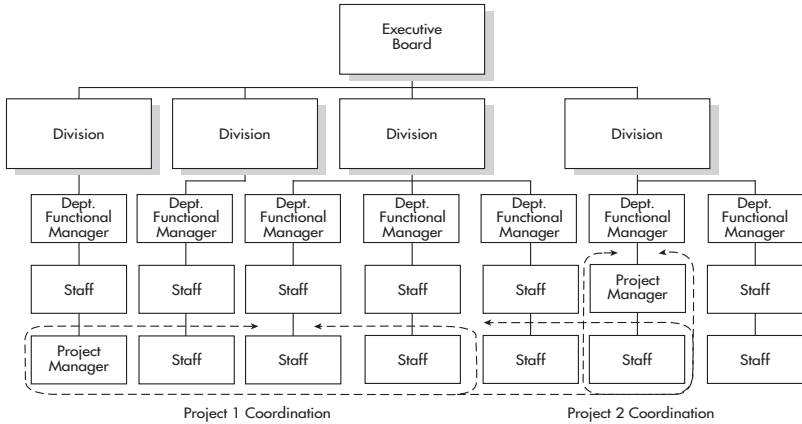


*Figure 3.4 Balanced matrix structure. From: Project Management Institute, A Guide to the Project Management Body of Knowledge (PMBOK® Guide)—Third Edition, Project Management Institute, Inc., 2004. Copyright and all rights reserved. Material from this publication has been reproduced with the permission of PMI.*

In this structure, both the project manager and the project staff may be sourced either from inside or outside the company (outsourced or temporary external staff). Such an arrangement allows for a clever use of scarce resources because, once the project is over, internal staff can return to their original divisions and temporary external project staff can either be reassigned or deployed. This type of approach to project management has become more popular because it enables resources and subject matter experts (SMEs) to be shared across departments, thereby reducing the need to build multidisciplinary teams in all areas of the organization. See Figure 3.5.

In this structure, the project personnel will not be reporting to any functional managers. Instead, they will report directly to the executive board. This is where the presence of a PMO will come in handy (as discussed later) because the PMO can handle the management of projects more efficiently than if it is handled by the executive boards, which have their own responsibilities.

Table 3.1 summarizes how the various organizational structures set the ground rule for the PMO's role. It shows how the different

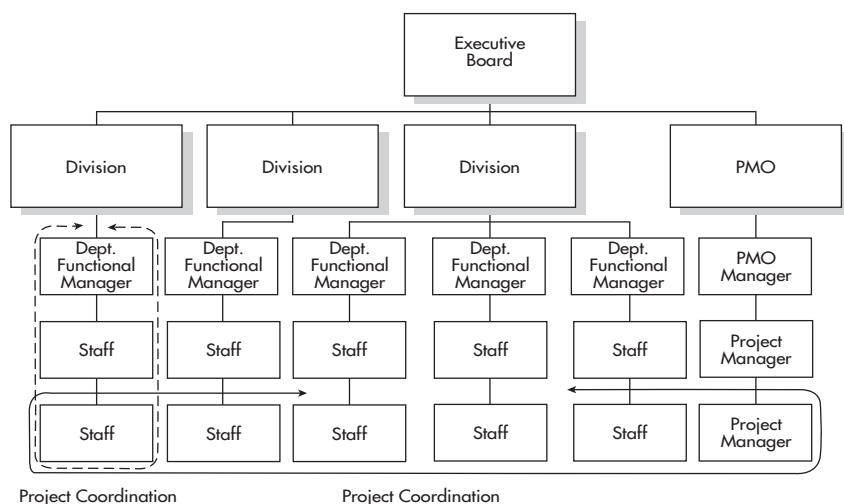


*Figure 3.5 Strong matrix structure. From: Project Management Institute, A Guide to the Project Management Body of Knowledge (PMBOK® Guide)—Third Edition, Project Management Institute, Inc., 2004. Copyright and all rights reserved. Material from this publication has been reproduced with the permission of PMI.*

structures allow for different levels of authority for the PMO. From this table, we can see that organizations that already adopt a balanced matrix, strong matrix, and projectized structure are generally more open to incorporating the PMO as a part of them. Organizations that do not yet have strong project activities (i.e., those with

Table 3.1 Effects of Organizational Structures on the PMO

| Effect                       | Functional Structure | Weak Matrix | Balanced Matrix     | Strong Matrix    | Projectized Structure |
|------------------------------|----------------------|-------------|---------------------|------------------|-----------------------|
| PMO's level of authority     | None                 | Limited     | Limited to moderate | Moderate to high | High                  |
| PMO's control over resources | None                 | Limited     | Limited to moderate | Moderate to high | High                  |
| PMO's control over budget    | None                 | None        | Limited             | Moderate to high | High                  |
| PMO's role in the company    | Advisory             | Advisory    | Advisory to limited | Moderate to high | High                  |

Source: Adapted from Project Management Institute, *A Guide to the Project Management Body of Knowledge (PMBOK® Guide)—Third Edition*, Project Management Institute, Inc., 2004. Copyright and all rights reserved. Material from this publication has been reproduced with the permission of PMI.

# Making a Case for PMO: PMO and the Organization's Structure



Organizational structure describes the way responsibilities, tasks, and people are organized (Daft, 2003), that is, the authority, relationship, and hierarchy among all the components of the organization. However, changes or restructuring, such as the incorporation of PMO into the organization, may occur from time to time due to external and internal factors. Prior to changing the organization's structure, the company's decision makers have to ask several questions (adapted from Carpenter and Sanders, 2009):

- Is the organization's current structure appropriate for the new strategy that incorporates a PMO?
- Can the current reporting relationship and delegation of authority support the incorporation of a PMO?
- Is the organization structure too centralized or decentralized for a PMO to be successfully implemented?

If the current structure is not conducive for the PMO, then the executive board needs to decide what it will do to improve it.

Going back to FAS Inc., the introduction of the Program Management Office forced the executive team to consider the company structure. Paul Witten noticed that the organization was totally functional in nature, with each product owned and operated by a specific department (or silo). Any projects requiring cross-organizational cooperation had to be communicated via the silo manager. The organization had grown to a size where it was necessary for departments to share resources and knowledge, but the current structure did not allow for that. This prompted a review

of each department's functional responsibilities by the PMO. One thing that became apparent during the evaluation was that the teams were very loyal to their respective units. The PMO worked with the management team to determine which structure would best suit the company. They determined at the outset that the company had outgrown the functional management model. They also ruled out a totally projectized format because there was a strong loyalty to the old functional structures (especially concerning people's need to belong to a unit).

After some review, Paul, working with the department managers, decided to introduce a strong matrix approach to FAS Inc.'s project management. The plan was to have the teams still report to their various departments and managers, but they would also report on a project level to the assigned project manager, who would be responsible for the budget and resource allocation. The teams would be made up of people from throughout the organization and would exist for the duration of the project. The benefits were twofold: First, resources could be efficiently shared across projects, increasing the amount of work that could be completed. Second, ownership and accountability were easier to implement and track. (No longer did responsibility get hidden in a silo!)

functional structure and weak matrix) rarely need a PMO, but they may need a certain level of project coordination functions similar to those carried out by the PMO (more on changes and the organizations' culture in Chapter 17).

## PMO Capability Level

After reviewing these different characteristics of various structures, readers should have a feel by now which type of structure your organization adopts. Before you begin to determine the best position

to locate the PMO in the hierarchy, you should consider a number of factors, such as the organization's culture, size, and financial capacity, because they all determine the PMO's capability level (i.e., what the PMO's authority and roles will be). The following is the different levels commonly used to indicate a PMO's capability:

- *Level 1:* The PMO acts as a liaison between the Project Offices and the executive board for administrative purposes only (e.g., providing a summary report of the progress of all projects in the organization to the executive board, assisting with project issues escalation, and so on). In other words, Level 1 PMO adopts a reactive approach instead of the proactive approach of a Level 2 or Level 3 PMO.
- *Level 2:* The PMO goes beyond providing support and has the authority to implement actions that improve the organization's project management capacity and capability (e.g., standardizing the organization's project management process, providing project management training, and so on).
- *Level 3:* The PMO does not act only as an independent body with authority to lead the project environment, but also as a center of excellence. Thus, it directly contributes to the organization's discussions on strategy, and it takes actions to implement those strategies through projects to create competitive advantages for the organization.

Level 3 involvement of the PMO is what organizations should aspire to. At this level, the PMO can generate substantial benefits that would not only assist the organization in launching its current strategies but also help build a platform for future strategies to be developed and implemented. Over time, a company can gradually move from Level 1 to Level 3 as it becomes more comfortable with the notion and experience the benefits.

## Level 1 PMO

Level 1 involvement is mostly a support role, and the PMO can operate more effectively as a unit under, for example, the finance department. From a cost standpoint this arrangement is very efficient and the direct reporting of the PMO manager to the department head facilitates decision making. The administrative support provided by the PMO can be standardized to a large extent, possibly generating further efficiency for the unit. Under these circumstances, the PMO will most likely be categorized as a cost center with a certain budget to maintain its operation. See Figure 3.6.

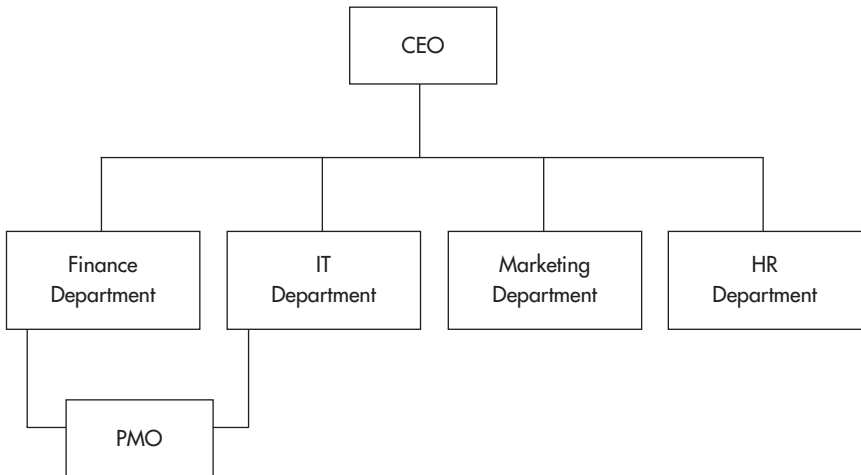


Figure 3.6 Level 1 PMO.

## Level 2 PMO

When the organization has more capacity and needs a more mature PMO, then having the PMO as a separate independent department—with the PMO Manager reporting directly to the CEO—might be desirable.

The PMO's status is elevated to those of the other departments'. In doing so, the organization sends the message that the PMO is