Establishing the Portfolio Management Office
White Paper

Establishing the PMO

What’s the problem?

PMOs (Programme/Project Management Offices) have typically evolved as a reaction to project reporting informality, or, to be somewhat less charitable, what often was project reporting chaos, with incomplete, inconsistent, typically spreadsheet-based project reports being produced (erratically) by Project Managers and then collated, often under duress, by the PMO to be massaged into an apparently consistent overall picture of (subjective) project progress and their (subjective) delivery status.

Occasionally this role will be extended to include timesheet/cost reporting and/or resource management. Such a PMO almost inevitably comes to be perceived by Project Managers as a ‘police force’ hassling them for information and attempting to ‘catch them out’ if that information is supplied late or it puts their project in a bad light. The perception within the Project Management ranks is often, ‘Those who can project manage, do project manage – and those who can’t join the PMO’. Such a PMO risks being cast in a subservient, and yet adversarial, role that tempts Project Managers to ‘better’ it rather than value it.

If the traditional PMO struggles to gain respect with the Project Manager community what about its place in the IT Function as a whole? In almost every organisation (often even in organisations where IT is absolutely central to the organisation’s business, such as credit card companies and price comparison website companies) the IT Function is widely perceived by the business as a ‘support group’ and managed as a ‘cost centre’ with all the ‘back office’, ‘overhead’ connotations that attach to that perception. Indeed in many organisations the IT Function is best characterised as a ‘necessary evil’ as far as senior management is concerned. In such a culture the PMO, which even the IT Function itself may perceive as a ‘back office’ function, can struggle to make the case for its value even within the IT Function let alone the business as a whole. When recession hits and ‘non-value-adding support groups’ are being targeted for closure in order to reduce overhead costs this ‘back office of the back office’ can often be the first casualty.

What’s the solution?

So how must the PMO reposition itself in order to not only demonstrate its importance and value to the IT Function and its Project Managers but also to demonstrate it to the business as a whole? By establishing itself as the ‘centre of excellence’ for portfolio management. In other words, what started as the Project Management Office and morphed into the Programme Management Office needs to move one step further up the PPM (Project Portfolio Management) value chain.

The term ‘Portfolio Management’ is currently very vogue and attempts to create the impression that this is a new discipline that must be mastered (usually with the help, of course, of some expensive consultants). But in fact it is essentially just what we always called ‘project prioritisation’ of the long list of projects put forward each year for funding. It is ‘simply’ comparing the costs, benefits and risks of all candidate projects and then selecting the subset of the projects that on balance offer the highest benefit, lowest cost, lowest risk portfolio of projects within the available cost/resource budget – and then, once approved and funded, sustaining the optimal portfolio as the cost-benefit-risk business case for the project changes with time. This is something that we have been doing since the dawn of IT Functions – but typically not doing it very well.
The main reasons we struggle to manage our portfolios of projects effectively are many:

- Too many proposed projects with too little money/time/resources
- Projects can ‘appear from nowhere’ with little or no commercial justification and are expected to be ‘absorbed’
- Project approval/priority is set in departmental ‘silos’ based typically on ‘can we afford it’ and/or ‘can we resource it’ rather than a compelling, credible, objective business case
- The ‘decibel management’ problem of senior business managers with vested local self-interests demanding the approval of their projects, potentially drowning out rational commercial comparisons across the organisation
- The ‘project lottery’ of having no consistent/objective process for approving and prioritising competing proposed projects
- The lack of commercial credibility of many project business cases (where the financial benefits are often ‘wish fulfilment’ whilst costs are presented selectively and are unrealistically minimised)
- The inability to identify and stop rogue projects already approved and funded (and, of course, the unwillingness to ‘advertise project failure’ by either the project sponsor or the project developer – even though stopping a failing project and so stopping ‘throwing good money after bad’ is surely a sign of success)

So the first (and key) job of a Portfolio Management Office is to ensure that project business cases are commercially realistic, complementing the cost/benefit equation with a truly honest and realistic examination of the risks, not only of project delivery, but also of benefits realisation. For example, in our PPM tool, PM3, we have screens in which both the project delivery risks (e.g. skills available, criticality of deadlines, stakeholder involvement level) and benefits delivery risks (e.g. business impact, benefits tangibility, benefits realization constraints) are scored consistently and objectively.

<table>
<thead>
<tr>
<th>Exposure Factor</th>
<th>Assessment Criteria</th>
<th>Weighting Factor</th>
<th>Assigned Value</th>
<th>Weighted Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Nature of the contract</td>
<td>Fixed Price element</td>
<td>✗</td>
<td>9</td>
<td>9</td>
</tr>
<tr>
<td>Cost estimating assumptions</td>
<td>Optimistic and/or biased</td>
<td>✗</td>
<td>9</td>
<td>9</td>
</tr>
<tr>
<td>Delivery deadlines</td>
<td>Externally defined (e.g. ‘Y2K’)</td>
<td>✗</td>
<td>9</td>
<td>18</td>
</tr>
<tr>
<td>Time estimating assumptions</td>
<td>Optimistic and/or biased</td>
<td>✗</td>
<td>9</td>
<td>9</td>
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</tbody>
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These are then mapped against data collected in further screens to consistently and objectively score the costs and benefits (e.g. NPV, strategic alignment, competitive advantage, regulatory compliance). Armed with this intelligence an informed debate can be initiated based on meaningful, credible comparative information.
And when a candidate portfolio of approved projects is agreed in principle then it can be checked against financial and staffing capacity predictions to see if it ‘fits’. If it doesn’t then another iteration is required. For example, in PM3 the candidate portfolio is subjected to ‘scenario analysis’ in which the effects of cancelling, postponing, putting ‘on hold’ or shifting in time candidate projects can be tested against alternative candidate financial/staffing budgets.

**Benefits of the Portfolio Management Office**

By positioning itself as the Centre of Excellence for Project Portfolio Management and driving forward the portfolio management process the Portfolio Management Office can change its perception from being a (very) back office, non-value-adding function into one of great value to the business as whole. In this way the benefits of the Portfolio Management Office extend far beyond the traditional ones of providing an objective, consistent status/financial reporting structure and reducing error-prone manual reporting to helping construct the optimal project portfolio, identifying at the earliest possible time projects that have become ‘at risk’ of not delivering their promised benefits (and so should be considered for rescoping or even termination) and measuring/demonstrating project success (by measuring and reporting the benefits actually realized compared with those proposed in the business case).

Such a Portfolio Management Office can also reinforce its position by stepping outside the IT Function and becoming a corporate Centre of Excellence for portfolio, programme and project management, either acting in a consultancy/advisory and quality assurance capacity or, better still, as a centralised pool of the organisation’s best Project Managers who are seconded to projects.

Can these benefits be measured? Well experience has shown that trying to make (and then prove) a ROI business case for such a PMO is highly problematic, because the PMO is itself instrumental in others achieving benefits, i.e. its key benefits are indirect. And the fact that very few organisations even start with any credible metrics of project success means that several years of rigorous measurement may be required to help demonstrate that indirect benefit. So the truth of the matter is that investing in a
Portfolio Management Office is likely to largely be an act of faith – but even if difficult to measure, the benefits can be vast:

☑️ Improved commercial control over project justification, prioritization and changes in requirements and circumstances, leading to a minimization of performing work that has low (or no) commercial justification; this, in turn, freeing time for focus on work which demonstrably has, and sustains, a high commercial justification

☑️ Improved control over interdependent projects, leading to value based prioritization of the portfolio, reduction in the cost of nugatory work, project synergies, cross-learning, optimized resource allocation and improved probability of benefits realization

☑️ Improved, active management of project risk, leading to early warning of delivery problems and reduced instances of project failures

☑️ Increased accountability for benefits realization potentially resulting in earlier and greater benefits realization

☑️ Increased customer satisfaction

Given potential benefits such as those listed above it is hardly surprising that the Project Management Institute (PMI) views the PMO as ‘a strategic driver for organizational excellence’ rather than a tactical, back office, IT support group. And the need for such a strategic, proactive PMO group has never been greater given that surveys over the last 20 years consistently report that between 70-90% (depending mainly of project size/complexity) of projects fail to be delivered tolerably to budget/schedule and then deliver measurable business benefits. With such a track record of failure can organizations afford not to establish such a PMO to drive forward the PPM agenda?