Steven W. Smith Group

ENABLING TECHNOLOGY to Drive BUSINESS VALUE

Can the PMO justify its existence in 2014 and beyond?

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With more companies questioning the value of their central Program Office, can you save yours?

Overview

As an IT leader in 2014, are you in a squeeze between rising vendor prices and the cost-cuts your CFO is demanding? Between the constant barrage of new project requests and the groaning of an over-extended staff? And between mounting pressure to "cut the fat" and just keeping the systems up and running?

You're in a dilemma. Every team is under scrutiny – and in danger of being cut if you can't prove its value. That includes your Program Management Office – the PMO.

An annual study of corporate PMOs by ESI International showed that in 2011, *nearly 58% of respondents* questioned the value of their central program office. With numbers like that, it's clear the value-proposition of the PMO is eroding.

> *"With 40 percent of PMO project/program managers and 58 percent of non-PMO ones questioning the value of their PMOs, its perceived value is far from clear."*
>
> ESI International Study: *The Global State of the PMO in 2011: Its Value, Effectiveness and Role*

This paper discusses why the real power these days – the CFO – has the traditional PMO in his sites. And it describes what you can do to keep your PMO relevant, to increase business satisfaction, and to retain your control over IT in "the new normal."

Who's steering, the CIO or the CFO?

Recently a client hired me to build them a new Program Management Office. The company, to that point, had had no process governance at all.

The IT and Engineering groups were convinced they needed a more formal set of development and support processes. They had gotten the budget approved to build and operate a PMO. Yet, when it came time to actually sign the contract, *the biggest hurdle was the CFO*. She simply would not believe that IT had actually made an informed and cost-effective decision.

This isn't an isolated case.

In fact, CFOs have become so mistrustful of a CIO's perceived inability to control IT spending that they are assuming control of IT themselves. Gartner reports that in 46% of companies with revenues over $1 billion, the IT departments *now report to the CFO*. In companies with revenues from $50M to $250M, it's as high as 58%.

Don’t they trust you – the CIO – with your own budget?

As IT spending becomes a larger percent of revenue, it’s only natural for the CFO, the financial steward of the company, to question the return on that spending. They’re asking: "What value are we really getting for our IT investment? We’re spending more on IT, but does it get us anything we actually **need**?”

According to Gartner’s 2012 study of CFOs and Technology, the answer is a resounding “no.” Only 31% indicate they routinely achieve benefits from IT investments.

How does this loss of confidence in IT affect the Program Office?

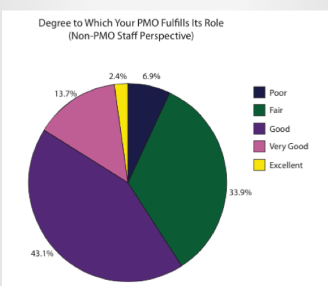
> *“A gap is developing… Business leaders are looking for modern, easy-to-use applications to solve specific problems … IT is working toward a limited set of applications to … reduce IT costs. These competing goals often lead to strategic misalignment.”*
>
> Top 10 Findings From Gartner’s Financial Executives International CFO Technology Study (May 2012)

Is the PMO “stuck in the past”?

There’s a long-held conviction that IT is a necessary but inefficient operation.

To what degree does your PMO fulfill its role?

The perceived ineffectiveness of the PMO is now over 40%.



ESI International Study: *The Global State of the PMO in 2011: Its Value, Effectiveness and Role*

Fair or not, over time IT departments tend to develop “pockets of rigidity.” Such inflexibility prevents IT from being agile and cost-effective. Which means IT can’t deliver real business value in a timely manner.

Many see the traditional IT Program Office as one such pocket. They often see the PMO, not as beneficial, but as ineffective, “stuck in the past” or simply “process for the sake of process.” Thus the value-proposition of the PMO is falling under increasing scrutiny.

Donna Fitzgerald, Research Vice President at the Gartner Group, has 31 years in IT PMO. She had this to say about the perceived value of today’s PMO:

> *“Consistency of process is no longer enough to make the grade in the new normal. Delivering the product of the project (i.e. what the customer really **needed** in the time frame it was needed by and at a price they can afford) is what is required. Based on hundreds of calls with clients I feel it’s safe to say that most PMOs are coming up short in this area.*

In other words, just “doing what you’ve always done” doesn’t cut it any more.

Is your IT group – and more specifically your PMO – actually providing what the **business** needs, when it needs it? If not, you can expect business support to dwindle, and a looming reduction in force (or outright elimination).

How can you restore the faith of the budget office, and save both IT and the PMO?

> *" If you are head of a PMO today there is a distinct probability that you may not be in that job in 3 years either because the job won't exist or because you've been asked to find a new position elsewhere in the company (we are putting the odds at 50%).*
>
> Donna Fitzgerald
>
> Research Vice President, Gartner Group (July 2013)

"Why aren't you doing more to help **me***?"*

Too often, initiatives started by IT are seen as IT-only projects, rather than business projects. IT does what it wants (or needs) while the business gets little or no attention. In other words, there is *misalignment* between the two.

Alignment between IT initiatives and business goals doesn't just happen by accident. It requires dedicated resources acting as liaisons, coordinating communications, and conveying priorities, constraints and requirements.

Traditionally, IT – aided by product management, finance or whatever group is requesting a project – determines the feasibility and priority of a project. It then proposes which project should come next and obtains approval to proceed from the CIO. The PMO then manages the new project as part the roster of "active IT projects."

And therein lies a peril for the PMO. Inevitably, the PMO is seen as being focused only on "those IT projects," projects viewed as not necessarily aligned with the business needs.

Aligning IT initiatives with the business

Things are no longer "traditional" in the new normal. It is no longer solely IT's decision as to what's important or what has the most value or ROI. More often, the CFO makes the decision on which investment is made, which project is started, which department is cut.

What's required is a project priority queue *driven by business needs*, but *tempered with IT experience*, and a more *business-centric approach to managing that queue*. This approach yields the following:

- IT awareness of business priorities
- Business awareness of IT costs and constraints
- Execution of what the *business* sees as the highest priorities
- Increase in IT's value to the organization

But managing the queue and all the interactions between business and IT, requires resources with a specific skillset. These days you simply don't have any resources available.

Or do you?

A fundamental shift in the PMO – or a natural fit?

Look no further than your beleaguered PMO.

A typical PMO staff is already adept at intergroup communications. It manages a broad spectrum of programs, or simultaneous dependent project initiatives, involving multiple teams. It also maintains metrics that indicate the relative success or failure of those projects.

The skillset of most PMO staff (see sidebar) makes them a “natural” for the liaison role. And an effective liaison will ensure the initiatives actually undertaken are *the ones seen as most beneficial to the business*.

For IT-centric PMOs, this is a fundamental change in focus. Learning to interact with the key business players, rather than primarily with IT, takes some adjustment. But adjustments aside, with proper mentoring the PMO can absorb this responsibility. In doing so, it helps not only the business and IT, but also increases its own value within the company.

So how do you insert the PMO into the midst of the *IT vs. Business* brawl?

Does the PMO have what it takes?

Skills that aid in IT-to-business alignment

- Manages *multiple* projects, horizontally
- Insists on open communication
- Builds bridges / manages differing points-of-view
- Maintains of outstanding requests and available resources
- Insists on success / failure metrics, reporting
- Insists on KPI reports

Making the Shift: Saving the PMO and showing the value of IT

Transforming the image of IT – and the PMO – into that of a truly aligned business partner is not instantaneous. However, here are some basic guidelines to follow.

The new role of the PMO

The Program Office can play a crucial role in ensuring its own future, not to mention improving IT’s image. This requires taking on a few additional liaison roles:

- ***Communicate the business priorities to IT.*** Give the business a voice into IT. Without it, the business will continue to question whether it’s getting what it needs from IT.
- ***Communicate the true cost of IT to the business.*** Make the business aware the cost of IT is justified. The cost of providing basic IT services is often overlooked, except at budget time.
- ***Manage approved projects on behalf of the business, not just IT.*** If business priorities are king, the PMO needs to visually manage the projects for business stakeholders as well.
- ***Report the results.*** Metrics, metrics, metrics, but don’t overdo it. The CFO wants to know more than just “success or failure.” Did the project actually solve the business problem for which it was chartered?

While these are new roles for the PMO, they use the primary skills already in the PMO staff’s toolbox: communication, project management, and metrics.

Proposing and planning the change

Transformation can't be done in a vacuum, and it absolutely can't be one-sided. Treat it like any other project proposal, but make sure the *business* makes the decision, not IT! Here's how to help it along.

- ***Plan it out*.** Don't expect to simply announce, "We're now going to be your best friend and advocate," and that finance will say "sure thing." You'll need a project plan, timelines, a communications plan, and other standard project artifacts. But before you go overboard ...
- ***Propose it.*** Don't surprise the CFO with a sweeping plan of action out of the blue. Keep your proposal modest -- flesh out the project documents *only after* the proposal is approved.
- ***Offer the PMO as the conduit of change*.** Resources are required. Propose that the PMO staff help the business manage its priority queue, lead workgroups, and keep communication open with IT.
- ***Train / mentor the PMO staff.*** Don't throw the PMO staff overboard without a lifebelt. Address any skills deficiency within the team *before* starting the transformation project.
- ***Get the business to truly buy-in*.** Don't allow a one-sided commitment. It's great to offer the PMO act as the conduit, but the business has to commit to ongoing participation, too.
- ***Require a solid business case for project requests.*** Also called zero-based project budgeting, it requires a business reason and measurable benefit for all proposed initiatives, so that Finance and the CFO (not IT) can weigh the relative merits.

Just remember: The PMO can help manage the business priority queue, but it *can't make up or rank those priorities*. Let the business decide.

The merits of metrics - reporting the value of IT

Beyond communicating business priorities to IT, the PMO can also help raise business awareness of the necessary cost (and value) of IT. In other words, making it more visible what the business is really getting for its money. The best way to do this, and one that is a core PMO skill, is by reporting on metrics.

These guidelines involve the careful reporting of various metrics from both projects and general IT operations. But be wary of too much detail. Instead, provide an easy-to-digest view of what IT provides to the business, without putting them to sleep.

- ***Determine one or two key measures*** that provide a simple view of IT value. Too many numbers will hit the snooze button. For example, a short list of basic services with their annual costs.
- ***Don't publish a 90-page document or slide deck*** and hope there is something valuable to the audience. The CFO will never take the time to read through it.
- ***Create a "dashboard"*** of any additional metrics and measurements. Ask the business what it really wants to see. There is nothing more boring to execs than staring at a bunch of figures they didn't ask for.
- ***Report basic IT service costs as utilities*.** Regularly report on "static" IT costs as *the necessities for running the core business*. The CFO and others will begin to see these costs like utilities, instead of an undefined overhead.

- ***Report "what's leftover."*** Regularly report on resource availability / unavailability. If no resources are available for a new project, the business will know immediately, and they (not IT) can determine whether to add staff or postpone.
- ***Keep it current!*** It's important not only to keep the dashboard up-to-date, but also to revisit the content periodically. Things change. Let the business weigh in on the information you provide them.

Making it all work

Each of these guidelines can be applied individually in varying degrees. Some will only work if there is a conduit between finance, the business and IT. As recommended here, inserting the PMO into this role will …

- Increase IT awareness of business priorities
- Increase business awareness of IT value, costs and constraints
- Ensure execution of only what the *business* sees as the highest priorities
- Mitigate a decline the perception of IT's value as a true business partner

And perhaps most of all, this approach can justify the continued existence of your PMO in "the new normal."

Need help with your business transformation?

You have a smart and flexible IT team, eager and willing to learn. They do whatever it takes to improve IT's image and value to the company. Unfortunately, they are inundated with existing processes, and haven't the staff, time or experience to effect such a transformation without help.

After all, transformation isn't instantaneous, and isn't something that a single person or persons working in their "spare time" can effect.

Each company's situation is different. Consider using outside IT transformation consultants to assess your needs, and then to help plan, propose and successfully transition your PMO into a valued conduit between IT and the business.

About Steve Smith

Steve Smith is president and principal of the Steven W. Smith Group, providing focused IT transformation solutions and services for companies ranging from start-ups to Fortune 500. His leading-edge technology services have ranged from permanent- and interim-CIO, to building and refocusing PMOs, to mentoring organizations in Risk and Change Management.

Learn more about how Steve Smith can transform your IT organization at www.swsmith.com or contact him at steve@swsmith.com.

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