

WHITE PAPER / **VALUE OF A PROJECT MANAGEMENT OFFICE**

# UNVEILING THE BUSINESS BENEFITS OF A PMO IMPLEMENTATION

**by Christopher Mattila, PMP**

Despite proven capabilities to enhance effectiveness and successful outcomes, project management offices (PMOs) still face perception challenges — especially in demonstrating their return on investment. By focusing first on objectives and areas of improvement, a PMO deployment can deliver immediate and long-term benefits.



Project management office (PMO) implementations can have a significant positive impact on project management effectiveness and overall project success. However, according to PM Solutions' report, "The State of the Project Management Office," PMOs still face considerable perception challenges, most notably how to demonstrate the value or return on investment (ROI) of deployment.

It's not uncommon for the costs associated with PMO implementation to be deemed overhead expense, and therefore conversations focused on establishing objectives can quickly turn to dollars. Unfortunately, PMO costs vary depending on the staff and tools applied and how those costs are spread across work, whether as direct charges to a project, an allocation or a combination of both. Before implementation costs can be established, companies and utilities should first understand the value a PMO could bring from monetary, regulatory and risk perspectives.

### DETERMINE THE DESIRED VALUE ADD UPFRONT

It's key to identify the business case and anticipated value of the PMO at the start of the initiative with baselines for areas of improvement. By establishing essential changes upfront, the PMO team can determine the type of data needed for base measurements of improvement, even going back several years to understand trends that may be helpful for further analysis.

Key performance indicators (KPIs), such as cost performance index (CPI), and schedule performance index (SPI) and other earned value metrics, can quantify the health of the portfolio of work. However, these metrics must be set up properly with an aligned definition of what is considered good performance. Therefore, the design of KPIs should reflect the amount of rigor placed on each project and tie back to the overall objectives based on company needs. After all, if a KPI metric is not established at the correct threshold and instead communicates higher expectations than necessary, it can provide a false representation of the status of the PMO. The communication of an improperly aligned KPI can greatly hinder leadership's ability to make timely and informed decisions, which would put the PMO's value in question.

### COMMON DATA SETS

- Carryover budget
- Change order volume
- Compliance reporting
- Contract staff versus full-time employees
- Long-range capital plan to annual budget
- Mobilization costs
- Monthly budget to actual, cash flow and inventory volumes
- Operations and maintenance expenses
- Outage volume and days
- Overtime
- Percentage of projects completed on time
- Project lists
- Schedule changes
- Vacation accruals versus vacation used
- Volume of project

Data alone is not enough, though. PMOs must also take into account what's going on in the business at any given time as well as any event that may skew data. This might require a deeper dive, but it will help formulate a more practical application of tools and processes to identify when an event may occur and how to view or process that future data.

While simple process tweaks can sometimes yield value in project execution, achieving full value from a PMO takes time and an investment in change management activities. Therefore, a phased approach can be used to show incremental value derived and justify the cost of changes in processes, tools or technologies employed by the PMO over time. Establishing a PMO road map, and referring to it on an ongoing basis, can be an effective way to communicate progress and the value already obtained.

An effective PMO can also track the volume and value of projects and portfolios managed through the development pipeline and highlight how well they are executed. In this way, a PMO serves as an important piece in an integrated business planning model by identifying constraints and monitoring progress to forecast what is possible. At times, an initial budget is not enough to decide if a project should move forward. If risks arise that require re-estimations and reduce ROI expectations, a robust portfolio management review through a PMO can pinpoint these issues and allow organizations the opportunity to pivot project scope and add or substitute projects as needed.

### PATHWAY TO BOTTOM-LINE BENEFITS WITH QUALITATIVE DATA

While quantitative data can be easier to deal with, available qualitative data — perhaps from a customer and employee survey — should not be overlooked. Pricing, reliability and uptime are definitive data numbers, but a service ranking from a customer can be tied to on-time project completion, ongoing communication, estimations versus actual accuracy and more. These are all items to improve on organizationally. Employee engagement surveys can also focus in on productivity, turnover rate and, ultimately, profitability.

These softer data approaches may not seem relevant, but they are measured for a reason. And it presents another opportunity for a PMO to deliver a solution and added value to senior leadership. For example, if an employee engagement survey reveals employees feel short-staffed, an organization may look to increase its budget to also increase staff. However, delivering a multimillion-dollar budget consisting of five projects is far different than the same budget for 60 projects. Varying complexities and staff capabilities come into play, and processes are needed to identify the level of rigor and effort for each project and associated staffing levels.

Resource management templates can be developed for a PMO to assist this analysis and can then be applied to the organization's five-year forecast, providing a more strategic view of staffing levels and capability gaps from the start. Often this allows for a discussion on staffing

versus staff augmentation or deferring work that may be of lesser value in exchange for delivering within current capabilities.

### QUICK RESPONSES FOR AN AGILE SOLUTION

The value of a PMO also depends on its ability to respond to needs, changes, events and more. Once established, a PMO can utilize experience and contacts to form an immediate response to changes in environment (regulatory mandates), storm response/restoration, priority changes (portfolio adjustments), changes in strategy and contract strategy. It's a matter of flexibility. A rigid PMO is less likely to be successful over time.

Quantifying quick response time is a matter of showing changes in portfolio and resource demand. Examples might include shortening the average rate of storm response, increasing the ability to complete planned work, or gaining opportunities through changes in execution of strategy and portfolio mix. Changes in risk may not be as quantifiable, but there is also a qualitative measurement such as responding to a commission request, community request or corporate/investor relations.

By further aligning project load with resources, a PMO can streamline response times. For example, co-locating work resources can potentially limit mobilization costs while reducing outage times for system maintenance and capital work. With a unified resource demand view, a PMO can also communicate where shared services, such as electronic technicians, overlap the most and provide agreed-upon priorities and the ability to adjust resources ongoing. So when peak demand exceeds available hours, including overtime, the PMO can adjust the portfolio to accommodate unplanned outages or work where project resources are needed in the short term.

To help establish these priorities, a PMO can have a scoring process and ranking of projects. Often a priority score is based on revenue, system reliability, load growth, safety, and regulatory and risk mitigation. Typically there is a threshold or red line based on the annual budget.

Changes in portfolio value can be derived from dollar value of projects, purpose of the projects (revenue generating versus system upgrades versus replacements) and their return. A revenue project, such as adding a substation to serve a new industrial customer, can greatly add value to the mix of work and therefore not typically be subject to budget priorities, as it is the priority. However, if resources and strategy are limited or not immediately apparent, a cost recovery model can help determine which projects to fund.

Adaptation and flexibility in executing capital is valuable as long as it makes sense and is not too onerous to work in. Scalable processes and an efficient way to review projects are necessary, perhaps through a stage-gate model with a decision-making matrix for flexible scaling integrated with an organization's integrated business planning model. This may take time to develop, but pushing boundaries further develops value-driven processes.

## OPTIMIZE PORTFOLIO AND PROJECT MANAGEMENT

In partnership with finance and strategy teams, a PMO team can create a cost recovery model to identify the projects with the highest rate of return based on depreciation spend and whether or how they are capitalized. For example, an annual return and ratepayer impact may be visualized in a model. In a scenario where spending is weighted on new technology, software or infrastructure to be installed more rapidly with an accelerated depreciation rate of five to 15 years versus the typical 30 to 40 years on poles or transformers, the rate base may be increased beyond its normal growth. That might not be palatable from a commission standpoint, if a balanced spend is desired. In an attempt to maintain rate base, though, this spending may make sense to the utility if the technology provides a benefit to the ratepayer and utility operations. Inversely, portfolio spend, or ratepayer base rate increases, can also be slowed by focusing on capital installations of 30- to 50-year assets. Building this model is key to helping management visualize the overall impact of spending, as well as the effectiveness of a value-driven PMO in executing the plan.

This valuable insight requires advanced knowledge of rate making and the ability to execute, not to mention a rolling

five-year model to show the impacts of spend. It would be a significant amount of data to sift through, but the planning required can prepare organizations for further improvements in decision-making to maximize the value of their efforts.

To show the overall benefits of the PMO, once projects are quantified with a similar cost recovery model and the overall function benefits identified above, the costs to address them need to be identified, including PMO staffing, process changes, tool applications and licenses. This should involve not only the immediate, upfront expense but also the long-term value. In other words, once a process changes and efficiencies are built, it can become a norm and not see increasing gain. An annual cost-benefit analysis can help showcase the ongoing value.

A PMO can also enhance companywide quality assurance measures by serving as a second set of eyes on contracts, drawing reviews, budget analytics, resource reviews and rate case reviews for utilities. The ability of a PMO to view portfolio and program management holistically positions it to develop needed communication narratives for senior leadership approaching commissions or legal justification of potential rate issues or service levels.

## BRIDGE THE GAP WITH EFFECTIVE PMO STAFFING

The staff of a PMO is essential to its success. Since PMOs function similarly to a startup business within a business, it takes entrepreneurial-minded people to advocate for its services, the value obtained and the ongoing value possible. PMO staff should treat their own company as their client, focusing on making things better and more efficient and constantly striving to deliver more value with each project executed. This entrepreneurial spirit needs to exist in the leaders for cost, schedule and construction as well as the project managers and PMO leader.

The mentality — to look beyond data and KPIs to leadership and overall perception — is critical to see that the PMO does not become another layer of bureaucracy for a corporation to navigate. Instead, the PMO should facilitate a streamlined and consistent process across the entire organization. Sometimes this requires tools,

but oftentimes it simply takes walking through a process from beginning to end to remove redundancies and unnecessary steps.

For example, consider that an engineer's process to order materials is to specify the equipment, get a vendor quote, put in a purchase request to the purchasing department, add the accounting codes, and hope it is approved, filled and delivered properly. Without a companywide process, the engineer would be unaware of any potential discounts through the purchasing department, timing issues with the project controls team or even schedule availability to have someone receive the delivery — all complications that could delay projects.

With a PMO in place to establish a consistent process, it could be determined that the project cost analyst should submit such orders and copy the engineer for review. This simple solution would check accuracy, tie the purchase to project cash flow, and also review the schedule with the material coordinator so the site is prepared for delivery or can plan construction around its arrival to keep the project running smoothly. It could also alleviate the added burden of data entry from the engineer, helping to increase engineer throughput on higher-value responsibilities.

An effective PMO can also integrate with ongoing portfolio and program management work within a company. The values gained by the cross link of work execution, performance data and resource demand can and should drive the overall results of the value-driven PMO. This holistic, companywide picture can help balance the demand on shared staff or adjust budgets as priorities shift across programs and immediate project needs.

## **PUSHING FORWARD WITH CONTINUOUS IMPROVEMENT**

In establishing a PMO, ancillary and associated processes and systems may exist outside the scope of work that could still impact the company's overall successful execution of work. Whether systems are not set up appropriately to match data or processes are gathering and reporting data inaccurately, it is possible for a PMO to expand into these areas directly to help improve the organization's results.

The skills built into a PMO lean toward facilitation, so it makes sense to leverage that in process improvements. An example may be in data obtained through a work order structure. If that data has historically been vague and lacking details of work order breakdown in tasks, it offers no value and can be an obstacle in resource planning or estimation for future projects. By offering guidance to correct that data stream, a PMO can deliver long-term value to the entire organization.

Inaccurate project estimates are another area for continuous improvement opportunity. If historical data lacks detail and is then applied to a new project cost estimate that doesn't match up completely, an organization could end up allocating capital to a project that isn't fully utilized, impacting the overall profit/loss of the company. By drilling into the root causes and events that may influence each project, a data model can be built, with scenarios embedded for selection, to help evaluate estimates and cash flows to improve forecast and budget accuracy.

## **OVERCOME OBSTACLES TO SHOWCASE VALUE**

Though the value of a PMO can be illustrated through calculations and visible benefits, change management needs to be addressed for overarching and long-term success. Employees may be resistant to process changes, and showing value may not be enough to garner favor with those executing work.

Change management can help identify the root of resistance, such as the perception of an onerous process or loss of control, and arm senior leadership with direction to overcome it — as well as the data to back up the new approach.

Appropriately staffing the PMO itself is also essential to executing quality work. Taking on too much with too few resources could cause a lag in timeliness or subpar results. Depending on long-term goals and the future of the PMO, companies need to be selective on what to tackle and also to know when to seek outside help. In addition to aiding in ongoing work, an outside consultant could also add value by raising the experience level of the PMO staff.

## CONCLUSION

The immediate application of a PMO can derive value fairly quickly depending on the data it obtains and the processes it develops. It's not just about getting the project done. Throughput is important, but only one value point. After all, getting the correct level of data can show value immediately, but portfolio coordination and building accurate historical data greatly enhance a PMO's long-term value.

## BIOGRAPHY

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