

# CREATING A PROJECT MANAGEMENT OFFICE (PMO)

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## Executive Summary

Originally created to ensure good project management practices throughout an organization, the Project Management Office (PMO) has been expanded to a more strategic role and is widely viewed as the answer to better decisions, information, and execution. Creating a successful PMO requires thoughtful planning from the outset.

This is the first paper in a series about creating and maturing your PMO to step up to the challenge of making the connection between project and business success. The series can help you prepare a business plan for your PMO. This paper outlines a framework for building a successful PMO—a startup primer.

The second paper "*Maturing Your PMO*," identifies five dimensions of maturity, and elaborates on the first two of them:

- Governance and Portfolio management—tools for choosing the right investments.
- Benefits and cost management—tools for maximizing the financial potential.

The third and final paper, "*The Entrepreneurial PMO*," covers the final three maturity dimensions:

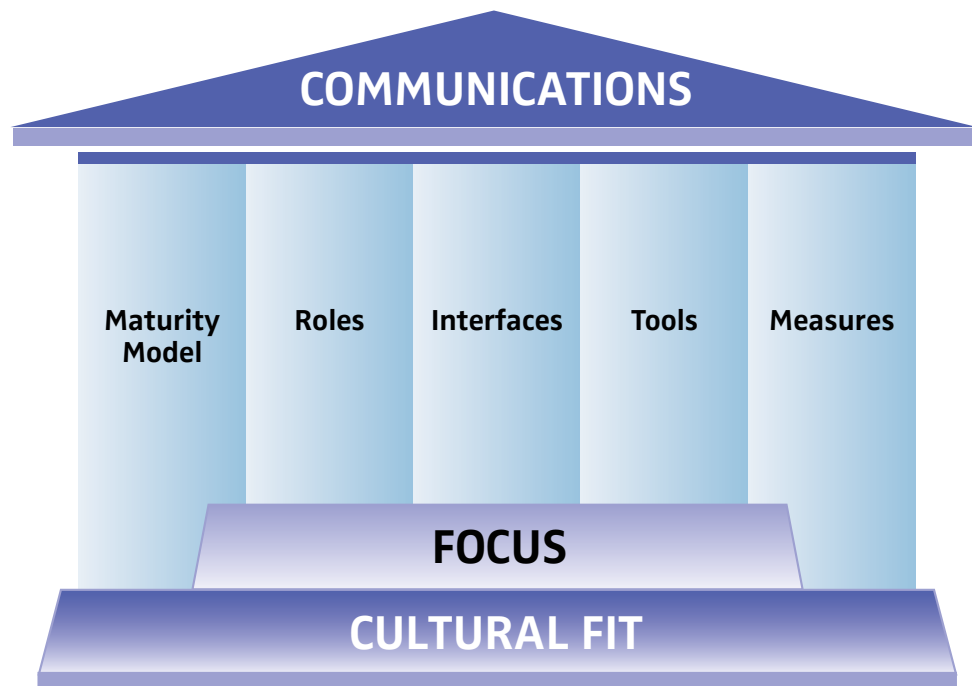
- Performance and risk management—executing well, measuring, and tuning.
- Resource management—investing the right human capital and other assets.
- Business value management—identifying value opportunities with business partners.

## Creating a PMO

Companies that want to improve project outcomes, provide critical project information for executives, or institute an analytical project decision process, are increasingly turning to the creation of a Project Management Office (PMO) as the change agent. Regardless of the business function of the projects in question—from marketing to IT projects, from client services to R&D—a PMO can be the answer to better decisions, information, and execution.

The PMO was originally conceived as means of capturing and promulgating good project management practices throughout the organization. The role of the PMO has been expanded, however, to include analysis, communication, and decision support. The PMO has become not only the center of excellence for project execution, but management's lens for viewing project performance, and the platform for initiating project portfolio management in the future. This more strategic role of the PMO requires thoughtful planning at the outset.

Building a successful PMO has structural components similar to any other construction project: a strong foundation and floor, solid structural supports, and a strong exterior are essential components of building your PMO.



## 1. The Foundation—Understand the Cultural Context

The first job is to understand how the PMO will fit into your culture, and to choose a complementary PMO model. Here are two suggested exercises for starting the PMO planning process. First, look for historical models of successful major change initiatives. Have successful past changes been the result of fiat, or evangelism, or grass-roots enthusiasm? The answer to this question will tell you much about your preferred model. Second, look at the model for other successful functional governance organizations, such as a major quality initiative, or a technical practice community. Are these centrally organized, or decentralized? Process-oriented or people-oriented?

A command-and-control type culture will probably respond well to a centralized, process driven PMO which “owns” the project managers and executes projects directly. A loosely organized, decentralized culture may have better success with a PMO based on voluntary collaboration of project managers “owned” by the business or functional units. A company running highly technical projects with “experts” as project managers may have success with a “community of practice” model in which project managers select PMO members, who then propose processes and tools, but do not execute projects. You will find other successful and creative models by looking at past successes in your company.

## 2. The Floor—Agree on the Focus

Since the PMO is a change agent, agree on what needs to be changed. This will drive the roadmap for the PMO. Here are some examples of “points of pain” that have created a perceived need for a PMO:

*Project failures*—Projects are running late, not delivering desired results. Too many errors are occurring, resulting in a high maintenance cost for the finished product. End users of the product are dissatisfied with results, so uptake is very poor. The focus of the PMO will be Execution Excellence.

*Costs out of control*—Redundant projects are occurring in different business lines. Projects are costing more than estimated. Funding for projects is confused or unclear. Some projects are capitalized, others are expensed. The focus of the PMO will be Financial Reform.

*Insufficient information*—Management has little or no picture of what projects are being done, or how well they are being done. Initiatives surface when they are in trouble. The focus of the PMO will be Portfolio Information Transparency.

*No decision framework*—Projects are undertaken with little or no analysis. Projects with a strong champion or determined evangelist drive other possible investments out of consideration. The focus of the PMO will be Portfolio Decision Support.

*Resource bottlenecks*—Key resources are chronically overscheduled. There is no clear method for project managers to get the right people for their projects. Project managers “hoard” or “hide” resources to provide for contingencies. The focus of the PMO will be Resource Allocation.

If you are currently thinking, “All of the above,” think again. If your PMO is to be successful, it must be initially focused on a few key goals. Other goals can be added over time. Create a roadmap, with a timeline for adding additional focus areas.

As you choose your points of focus, you are building a business case for the PMO. Take time to estimate the cost of the current way of doing things, the value of lost opportunities. Develop concrete anecdotes of failed projects, poor decisions, waste and redundancy.

### 3. The First Pillar—Get the Who Right

The foundation and floor are laid, and it is time to start putting structure in place. Now you are ready to think about two important “Who” questions:

- Who is the right sponsor for the PMO?
- Who are the right people to make up the PMO?

If you are lucky, you already have a committed, convinced sponsor leading the way. But if the sponsorship role is not a given, then “recruiting” a sponsor consistent with the focus areas will give the PMO the greatest chance of success:

*Execution excellence*—An operations executive from the functional area of the projects.

*Financial reform*—A finance executive.

*Information transparency or decision support*—A senior management member.

*Resource allocation*—A human resources executive.

Recruiting a sponsor is a sales job, pure and simple. You’ll have to make your case based on your analysis of the culture and the need. Your business case analysis should give a compelling financial and anecdotal picture.

The second “Who” question requires that you first define the roles of the PMO members.

The typical roles to choose from are:

- PMO manager
- Financial analyst
- Process expert
- Risk management expert
- Trainer
- Senior project manager
- Communication specialist
- Resource manager

The roles included—and the number of representatives of any given role—are dependent on the focus and the volume of projects under the purview of the PMO. The typical size of a PMO is three to eight members. At this point in the process, it is best to recruit the core PMO members, and have them participate in building out the rest of the PMO structure.

## 4. The Second Pillar—Defining the Relationships and Services

Next, you must decide on the scope of effort of the PMO, and how the PMO members will relate to the rest of the organization. Typically, the enterprise level PMO functions like an internal service organization, and other business and functional units are customers of the PMO. A common arrangement is to have various members of the PMO act as named liaisons with specific parts of the organization, serving as a single point of contact within the PMO for that part of the organization.

When the PMO views itself as a service organization, with the rest of the business as customers, its relationships can be defined as a “catalogue of services” provided to the business. For example:

*Project inventory*—The PMO can construct an initial inventory of all projects underway, and gather key information about them. This inventory can evolve into a managed portfolio.

*Project process development*—The PMO can create the processes, templates, and tools for more effective project management.

*Training and support*—The PMO can train project managers and provide support in crisis situations.

*Project management services*—If the PMO “owns” project managers, it can offer project management expertise.

*Project execution services*—If the PMO also “owns” project resources, then a turnkey execution service can be offered.

*Best practices repository*—The PMO can create the means for capturing and storing documents and lessons learned.

*Financial analysis*—The PMO can create benefit/cost models, train project managers on their use, or perform analysis of projects and report results.

*Financial results reporting*—The PMO can design and implement the means for gathering and reporting the estimates and actual financial results of projects to management.

*Status reporting and dashboards*—The PMO can design standard progress report formats, or create a repository for gathering reporting information, and use it to create dashboards and other management information systems.

*Decision processes*—The PMO can design decision criteria for project related decisions, facilitate the gathering of information, conduct decision meetings.

What belongs in the first “catalogue” of services depends on the model, focus, and roles already discussed. An important caveat is to start simple, and build over time. Most PMO failures arise from trying to do too much, too soon.

Critical for a healthy PMO is its relationship to management. A successful PMO is viewed by management as a valuable source of information, and an important link in the relationship between management and the project execution organization. One of the important jobs of the PMO manager is maintaining this key relationship.

## 5. Find and Create the Tools

When the catalogue of services is designed, the need for standardized tools, templates, and processes will become apparent. One traditional job of the PMO is to gather and disseminate these items within the organization. A second common role is to operate a central data repository and/or a central planning system such as Serena® Mariner®. The PMO typically takes ownership of the repository and data, and publishes data to its identified audiences.

While the Project Management Institute (PMI) and other organizations have a library of tools and templates, internally generated tools should be given first consideration. One of the jobs of the PMO is to find what is already there and working well, and institutionalize it. After that, it makes sense to look outside the organization for best practices.

The typical tools adopted by a PMO include:

- A lifecycle stage-gate project management process, and associated workflow
- Templates for the deliverable documents required at each stage gate
  - A charter, statement of work, or other concept description
  - A requirements document
  - Test plans
  - Deployment plans
  - Support plans
- A benefits/cost model or other financial analysis template
- A risk analysis template
- A project planning template
- Standardized status reporting formats
- Post-project audit programs

Other tools will be suggested by areas of focus and services offered. Start small and build—create a timeline for adding to the tool suite.

## 6. The Super Structure—Invent Your Maturity Model

In the early stages, limiting the scope of the PMO and creating achievable goals are crucial to success. However, it is just as crucial to have a vision of what the fully functioning PMO will look like two and five years out.

One way to sustain this vision is to design your own PMO maturity model. Inventing a maturity model is a five-step process:

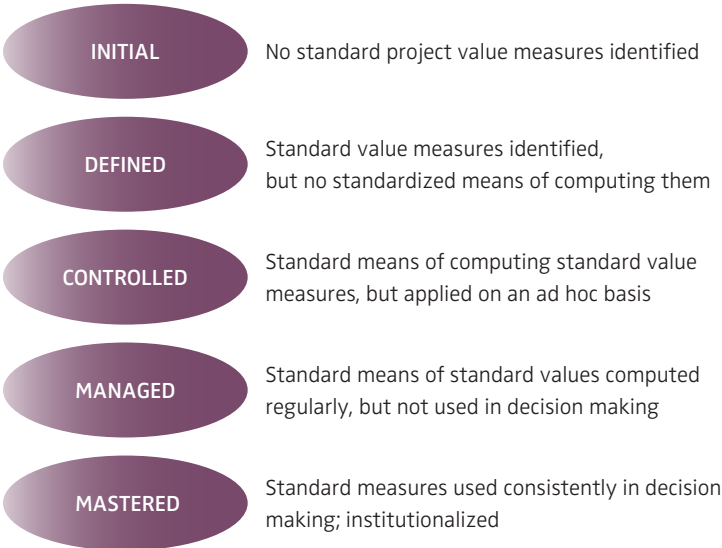
1. First, select the capabilities of your conceptual “perfect” PMO. These will include such things as financial analysis, risk analysis, project planning, resource allocation, etc.
2. Second, determine a “scale” of progression for each capability, beginning with entry level and progressing to mature.
3. Third, perform an “as-is” analysis of your current state.
4. Fourth, set a “to-be” goal for each capability.
5. Finally, create a roadmap for how you will get from the current state to the desired state.

As an example, assume you have determined that your maturity model will have five steps or stages along the scale of progression.

### Initial \* Defined \* Controlled \* Managed \* Mastered

Further assume you have identified the capability of financial analysis (the ability to calculate project benefits and cost, and other measures that determine the financial viability of a project) will be included in your maturity model.

Now you define the progression along this capability:



Finally, you set a timeline and create a roadmap for moving from one level to the next, with a specific date for when mastery will be achieved.

## 7. The Super Structure—Identify Success Measures

How do you want to look to the outside world? The PMO must provide its own basis for measurement of results. Given the focus, roles, scope and services, what are the key indicators of how successful the PMO has been in achieving the defined goals? For example:

- If focus is Execution Excellence—reduction in days delay, increase in user satisfaction, reduction of issues.
- If focus is Financial Reform—reduction in cost per employee or cost as a percent of revenue.
- If focus is Information Transparency—percent of total cost reporting status regularly, quality of information.
- If focus is Decision Support—percent of projects subjected to decision analysis, spending eliminated due to prioritization.
- If focus is Resource Allocation—percent of resource utilization, percent of billable versus non-billable time.

The PMO should be willing to subject itself to the same types of measures it might require of a project or program.

## 8. The Roof—Communication

First, last, and always, the PMO is a hub of communication. Effective communication means:

- Defining what information is needed by whom, when
- Creating simple and efficient report layouts
- Creating unobtrusive mechanisms for collecting the information
- Constantly validating and improving the data reported
- Constantly demonstrating the value of the information to recipient and source
- Keeping in touch with changing needs for information

A good way to structure the communication process is to develop a simple matrix with the focus determined early in the process on one axis, and the information audiences on the other. In each cell, describe the type of information needed. For example:

| <b>Focus</b>  | <b>SENIOR<br/>MANAGEMENT</b>  | <b>SEGMENT AND<br/>FUNCTIONAL MANAGEMENT</b>   | <b>PROJECT MANAGERS<br/>AND STAFF</b>   |
|---|---|--|---|
| <b>FOCUS #1</b><br>PORTFOLIO<br>INFORMATION<br>TRANSPARENCY | GLOBAL INVENTORY<br>OF PROJECTS BY CATEGORY<br><i>(WHO IS DOING WHAT?)</i>                | SEGMENT TO GLOBAL<br>RELATIONSHIP <i>(HOW DO MY<br/>AREA'S PROJECTS FIT IN<br/>THE BIG PICTURE?)</i> | PROJECT TO<br>GLOBAL RELATIONSHIP<br><i>(HOW DOES MY PROJECT FIT<br/>IN THE BIG PICTURE?)</i>       |
| <b>FOCUS #2</b><br>EXECUTION<br>EXCELLENCE                  | GLOBAL PROJECT PERFORMANCE<br>ON COST AND SCHEDULE<br><i>(HOW WELL IS IT BEING DONE?)</i> | SEGMENT PROJECT<br>PERFORMANCE <i>(HOW WELL<br/>ARE MY AREA'S PROJECTS<br/>BEING DONE?)</i>          | INDIVIDUAL PROJECT AND<br>PROGRAM PERFORMANCE<br>METRICS <i>(HOW WELL IS MY<br/>PROJECT DOING?)</i> |
| <b>FOCUS #3</b><br>RESOURCE<br>ALLOCATION                   | RESOURCE UTILIZATION<br>PROJECTION<br><i>(DO WE HAVE THE STAFF<br/>TO EXECUTE?)</i>       | EFFORT BY SEGMENT<br>AND FUNCTION<br><i>(HOW MUCH RESOURCE DO MY<br/>PROJECTS CONSUME?)</i>          | RESOURCE ALLOCATION<br>BY PROJECT<br><i>(WHAT RESOURCES ARE<br/>AVAILABLE FOR MY PROJECT?)</i>      |

## Summary

In this paper, we've outlined the structural components needed to build a successful PMO. Your successful PMO can make a major contribution to better project outcomes and decisions. To support your efforts and gain efficiency, look for a Project and Portfolio Management (PPM) solution, such as **Serena® Mariner®**, that delivers integrated portfolio, project, resource, demand and financial management. A solid PPM solution will provide the necessary decision-support framework to help you maximize value and return on your IT investment.

Start with a good foundation and a sound structure. And let us know how it goes for you—we can pass along what you learn in the building process to others.

**JANE WALTON** is Managing Director of Clarity Decisions LLC. Ms. Walton was formerly IT Portfolio Manager for Schlumberger, is recognized in the business press as an expert on IT portfolio management, has spoken at numerous conferences on the subject, and is a participant in the PMI task force to write the standard for Project Portfolio Management.

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#### ABOUT SERENA

Serena Software, the Change Governance™ leader, helps more than 15,000 organizations around the world—including 96 of the Fortune 100 and 90 of the Global 100—turn change into a business advantage. Serena is headquartered in San Mateo, California, and has offices throughout the U.S., Europe, and Asia Pacific.

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