



The Value Proposition of Outsourcing PMO Activities within Project Driven Organisations



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Outsourced PMO Proposition

Overview

One of the primary drivers for outsourcing any activity within an organisation is to reduce costs. Areas such as Finance, IT and procurement have been the usual targets for outsourcing in the past.

When looking at the IT projects within the organisation it is not unusual to hear about 75% of them being failures in terms of delivery, time and/or cost. There are a number of aspects that can be identified as being responsible for such failings that correlate directly with the stages of a project lifecycle.

Using standard best practice methodologies consistently throughout the organisation can go a long way to eradicate such failed projects through repeatable processes and lessons learnt.

The core of a project management offering is the PMO or Project/Program Management Office. This can take typically one of four forms depending on the level of responsibility and accountability placed upon it by the business. At one end of the scale it can be a supporting service collecting and reporting data, or at the other end it can control the methodologies used as well as defining the standard templates and processes to be adhered to and be accountable for the project management community within the organisation.

It is important to understand what is best to outsource, and that there are typically three roles within the Project Management disciplines; Project Co-ordinator, Project Manager and Program Manager. Each has specific roles to play and different benefits come from outsourcing each role.

There are three options when it comes to project management: keep it in-house, outsource it or use temporary employees as needed. Each company is different in terms of their needs, risk tolerance, standards and policies. Understanding your strategic direction and weighing the benefits of outsourcing should lead to the right decision for your company.

What is evolving is a complete 'out of the box' outsourced PMO, providing the number of Project resources required by the Project Portfolio operating within the organisation, from the co-ordinator to the program manager. The benefits are easy to see, including the use of consistent, standardised, best practice processes and templates and certified professional project management personnel.

An SLA with the outsource company places the responsibility and accountability with them to follow their practices and deliver to the agreed requirements.

Reasons for Project failures

With such frightening statistics¹ as “61% of all IT projects fail”, 52.7% of all projects exceed 187% of original budget, and “multiply your original estimate by 3 to get a realistic cost”, it is a wonder any IT related projects are started at all.

However, whilst these numbers may be off-putting, it is interesting to delve a bit deeper and identify the root causes of such a high number of failures.

Consider the main phases of a typical IT based project.

1. Requirements Gathering
2. Specification Development
3. Estimation
4. Development Planning
5. Development
6. Testing
7. Implementation

What would happen if the very first stage were not carried out correctly? If it were incomplete? If it were inaccurate? The knock on effect would create huge risk in the project of failing to deliver to **actual** business requirements.

All too often, the requirements gathering process is either not done at all, or is carried out by untrained staff who simply do not know how to structure their investigations in order to capture the total business requirement at a detailed enough level for the specification to be complete.

When was the last time a specification document was presented to the business and walked through in ‘layman’s’ terms for them to be able to make a judgement call as to whether their requirements had been captured correctly? This is imperative, as it is the ‘anchor’ between the business and the development teams and needs to be able to withstand the pressures placed upon it by shrinking budgets and resource issues. It has to be the rock on which you build a solid solution.

What are your estimates based on? Can you defend them under scrutiny? The use of estimating techniques that are seen as best practice enables you to stand your ground when the cry for reduced time and money comes from the boardroom. The use of techniques such as Function Point calculations will provide you with a solid estimate to work from that is defensible and because it uses historic data to ‘fine tune’ itself, will be remarkably accurate.

Assuming you have gathered your requirements correctly, written and validated your specifications with the business signing off on it, and estimated accurately the effort required to complete the project, you now have to plan how it is going to be carried out. This is a tall hurdle to jump, as it is where many resources converge. Accurate resource allocation provides budget details, which are crucial to getting the funding

¹ Source: Gartner and The Standish Group

from the business to carry out the project. Consideration has to be taken of hardware issues, communication infrastructure issues, people as a resource including administrative staff and support staff for presentations. Travel expenses for visits both to stakeholders and by stakeholders if not located in the same area. Any errors in this planning cycle will seriously jeopardise the delivery of the project both on time and to budget.

The next stage is possibly the easiest from a management perspective. If you have all the previous stages right, the development of the solution should be 'a breeze'. Now we all know that is never the case, and this is always due to some flaws either minor or major in the earlier activities. Keeping to the agreed plan is paramount, however there will always be the unexpected errors which should be catered for by any redundancy built into the plan.

By now, many teams are thinking they are nearing the completion of the project...nothing could be further from the truth. Testing is a huge stage to go through. It is a project in its own right. Requirements need to be gathered about what to test. Test specifications need to be prepared and validated. Scenarios written and scripts produced. Test hardware and software needs to be setup. Reporting plans need to be drawn up and integrated with the testing plans. That is all done before a single test is carried out. Once testing is underway, monitoring needs to be done and remedial action decided upon and taken when errors are discovered, as they surely will be. Every issue needs to be logged and kept up to date.

Once testing is complete, and signoff has been received by the stakeholders and sponsors, the job of actually delivering the solution to the end users is upon you. By now though, the environment should have been set up ready to accept the application into production. Training will have been scheduled and may have already started on a training environment. Cutover plans, reconciliations, parallel runs, and post implementation support are all issues faced during this stage.

So you should now have a good idea as to why projects can easily fail if not managed properly. All of the aspects we have highlighted here, plus many more, including quality systems and risk analysis, all have to be managed correctly for a project to be a success.

Now, imagine you completed all of that and your project went smoothly and came in on time and budget. Your 'after project' party was a roaring success and you and your team have basked in the glory for a while. You are now called upon to manage another project. Should you start your worrying all over again and go through the same hoops as last time? I hope not! You see, now you are armed with a powerful advantage in the project world: History!

Methodologies in Practice

It has long been the cry of some Project Managers that no one methodology can be used in its entirety but that one should ‘cherrypick’ those aspects of each one that best suits your circumstances.

It is very hard to follow any methodology to the letter, but each one has its own method of ‘padding’ or ‘trimming’ to suit the project at hand. Many years of hard work and effort have been put into the establishment of methodologies such as Prince, SSADM², DSDM³, Xoomworks’ ‘Granular® Methodology’ and the PMI’s PMBOK®⁴ to be able to adapt to whatever project environment they are applied to.

Once you have grounding in an established methodology, you should apply all of its aspects to what you do. Follow the processes and take advantage of the work that has gone into developing the methodology. This will pay off when your projects are completed successfully and your documentation becomes useful as a basis for future projects.

You will find that by using all aspects of a particular methodology there is inherent integration between phases of a project. The outputs from one process become the inputs for the next process. Equally the continuity produced by using integrated processes reduces the risk of missing key controls.

The key aspect of methodology use is repeatability. For any project being undertaken, the same processes and procedures apply. This repeatability of process leads to such benefits of flexible resource management, as all PMO resources will be familiar with the inputs and outputs of each process within the methodology in question.

² Structured System Analysis and Design Methodology - SSADM

³ Dynamic Systems Design Methodology - DSDM

⁴ Project Management Book Of Knowledge - PMBOK

The Project Office (PMO)

As with so many projects, the assignment of responsibility for the creation, implementation and staffing of a PMO can lead to the very direct temptation to start building it. And as with any project, yielding to this temptation is dangerous indeed.

The creation of a PMO should be no different than any other project--it needs to be understood, defined and planned before we can begin to build it. As with any project, the first thing that we need to do is confirm that we have a mandate. With a mandate, we have both the authority to proceed and an understanding of *how* we should proceed--and where we need to go. Without it, we run the risk of getting nowhere fast.

It is important to recognize that few people wake up one day and say "We really need a PMO." That they *should* is not the point here; they just don't. The creation of a PMO is usually tied to some trigger event, and that trigger is usually some real or perceived pain--where the PMO is seen as the cure. In ideal circumstances, recognition of the need for a PMO as a strategically important focal point for project development comes as part of an organizational restructuring or change effort. Whether the motivating force is a positive or negative one, however, the first thing that we need to understand is what the motive is and why.

The nature of the role and the purpose of the PMO can vary significantly. By knowing the *reason* for our PMO, we are in a much better position to define what the role and purpose should be, and the services that are critical to be focused on and delivered immediately.

When developing a Project Management Office, one of the greatest struggles is the identification of a model that can be adopted as a framework for development activities.

Research into how companies have implemented PMO's and experience of both setting up and working with PMO's has led to the realisation that there are several archetypes or scenarios that define the majority of PMO frameworks. Success in choosing the appropriate model, therefore, is determined by our ability to select an archetype that reflects our chosen outcomes and to stay true to this model as we face the tests of responding to specific scenarios.

The key influences on the archetypes identified can be reflected by the following matrix:

Control	Scrum Half	Perfectionist
Support	Scorekeeper	Facilitator
	Assist	Facilitate

There are two primary dimensions that influence each archetype: the degree of support provided or control exerted over project teams, and whether the focus of the PMO is on supporting the management of projects through existing capabilities or on improving how the organization manages its projects.

The characteristics of each archetype are determined by where they lie along each continuum:

- **Scorekeeper.** At its most basic, the role of the PMO is one of supporting project managers in delivering current initiatives. The principal emphasis is on monitoring and reporting project progress of current projects--in other words, on keeping score. The Scorekeeper archetype serves as a conduit for information about current projects, and managing a clearinghouse of consolidated status updates. They may be responsible for managing a library of historical project information, and for providing interpretations of project status and identification of risks and potential issues to senior management, but they serve a mainly passive role in supporting the organization's projects, similar to that of a corporate accounting function.
- **Facilitator.** The Facilitator archetype approaches the role of the PMO as being an enabler of improvement efforts. Often viewed as a source of best practices and management ideas, the model this archetype supports is largely demand-driven. The PMO will provide support, information and assistance only where requested by its customers. PMO staff does not drive improvement, but they will provide support and assistance when requested. The Facilitator archetype sees the process of identifying improvement objectives as the responsibility of the business itself; their role is to support attainment of these objectives on a reactive, demand-driven basis when requested to do so.
- **Scrum Half.** When the pendulum swings along the continuum from support to control, the role of the PMO becomes much more interventionist. The Scrum-Half archetype is typical of this approach, serving not as a support organization but as the central focus of project delivery. Organizational PMOs modelled after the Scrum-Half archetype often see the project managers actually reporting to the PMO, which serves as an internal services organization that not only monitors but actively intervenes to ensure the successful delivery of projects. Often a separate department or business unit, the PMO in this organizational model is often the central point of accountability for the delivery of organizational projects.
- **Perfectionist.** The Perfectionist archetype is defined by a control focus combined with an emphasis on improvement. The most interventionist of all archetypes, the

PMO views itself as a centre of excellence which embodies organizational best practices. The driving assumption underlying this archetype is that the organization does not currently manage projects well, and it is the responsibility of the PMO to drag the organization kicking and screaming into a world of project excellence. Rather than the "pull" driven model of the Facilitator, the underlying principle of the Perfectionist model is very much one of "push." The PMO that embraces this model sees itself as a strong agent of change whose purpose is to overcome resistance and pave the way to a very new management model. It may or may not have the project managers reporting directly to it, but there is no questioning the influence that the PMO plays on how projects are managed.

While the specific details that underlie each archetype will vary slightly from organization to organization, the primary characteristics of each tend to be universal, and a PMO will generally be fairly consistent in reflecting them. Although each model can have its value in supporting transformation and change, it is important to recognize that the archetype the PMO adopts must be reflective of the characteristics and values of the organizations it supports. Where the PMO operates out of step with the organization's values, discord will quickly emerge and without strong executive support it is unlikely that it will serve its role for long. Even where there is strong executive support, it is the rare organization that will support a PMO operating in a manner so clearly contrary to the normal functioning of the organization. Only where there is a compelling and real case for change will this conflict be sustained.

For organizations just launching their PMO, a close attention to their choice of archetype can significantly influence the ability of the PMO to successfully promote change. Even where a company has an established PMO, evaluating its role and how well the chosen archetype aligns with organizational values can be critical in ensuring ongoing success. As the organization continues to evolve and the project management practices of the company become more mature, the role of the PMO will need to evolve with it

Project Management Roles Defined

Before we discuss outsourcing the project management function, a few definitions are needed.

There needs to be a clear distinction between a project coordinator, a project manager and a program manager. For the most part, a **project coordinator** schedules conference calls and meetings, usually at someone else's request. During the meetings, the coordinator usually does not actively participate in the discussion but records action items, decisions and next steps. Outside of meetings, they may follow up on issues and track progress against the plan. The coordinator function is valuable from an administrative project management viewpoint.

A **project manager** will either have a project coordinator assigned to the project or will perform the roles of a coordinator in addition to other tasks. He or she usually carries some weight in decision-making and is expected to be knowledgeable about both business and technology. The project manager is also responsible for facilitating meetings and ensuring the discussions are kept on track and will actively take part in the discussions. Outside of meetings, they build relationships with the customers, sponsors, stakeholders and other team members. They are the ultimate contact people for just about everything related to the project. If someone is not sure where to take a particular issue or question, they can always rely on the project manager to either address the issue or point them in the right direction.

There are two definitions for a **program manager**. The NASA space program is an example of the first definition. There will usually be a person responsible for all rocket launches, another person responsible for shuttle missions, etc. Each major type of "business" that NASA participates in generally has a program manager assigned.

In the corporate world, particularly in information technology, the program manager will provide oversight for all projects. This includes input into determining which projects to move forward with, communicating high-level status of all projects based on input from the project managers and coordinators and ensuring standard processes and methodologies are in place and in use.

Since there are really three distinct types of project management, which ones make the most sense to outsource? Outsourcing the coordinator role may not prove to be cost beneficial. The remainder of this document will focus on two alternatives: outsourcing the entire program office and outsourcing specific projects.

Benefits of Outsourcing PMO activities

Outsourcing Models

One option would be to keep the program management office (PMO) in-house. There may also be a small core group of project managers. When the need for additional project managers arises, temporary employees would be able to fill this gap. While this scenario will work, this is not technically considered "outsourcing."

The first outsourcing model is to outsource only the project manager role, not the PMO. IT functions would be provided in-house or separately outsourced. This may have some benefits, but who would be responsible for the program office operations? Assume the program office is kept in-house and specific projects are outsourced. Would the outsourced projects follow the guidance of the internal program office, or follow their company's policies, procedures, and standards? If they follow the internal program office standards, the service level agreements would need to accurately reflect this. When a SLA is missed, there is also room to argue that it would have been met if the project followed the outsourcer's program office standards. This could be the beginning of a non-productive outsource arrangement.

Under the second model, the PMO and all project managers would be outsourced, but IT functions are kept in-house or separately outsourced. This scenario lends itself to holding the project management provider accountable for all projects. The provider would follow their own standard methodologies, and would be required to meet the defined service level agreements. The customer would still be heavily involved in identifying projects and justifying the costs and benefits of each. The outsourcer would provide the standards to be followed and overall coordination of the entire PMO.

But don't project managers need to know the internal workings of the company and systems to be effective? The short answer is no. A good project manager will have the necessary business and technical background to interact with and quickly learn the business and technical specifics related to the project. The project manager will also ensure that all of the cross-functional touch points are identified and addressed.

Benefits of Outsourcing

Outsourcing the entire project management function can provide these benefits:

Project Management Standards

Standard processes, policies and procedures would be defined and followed consistently. These can be developed in-house, but the primary question is whether you want your company to focus on project management activities or satisfying your ultimate customer.

Eliminate Potential Conflict of Interest

Synergies and improved performance may be obtained by outsourcing the project management function to a separate, independent provider, not your IT outsource provider. When the IT and project management functions are both provided by the same outsourcer, you may not be getting the best service for two reasons. First, IT

outsource providers deliver expertise in IT. They are focused on obtaining and retaining top IT talent. They may provide project management support, but this is not their primary focus. Second, the project manager will need to deal with internal politics. They are in a biased position because they don't want to make their company look bad. In this case, who is ensuring your best interests are taken care of? When project management is provided by a separate third party, there is no conflict of interest. You will receive better service through impartial status reporting, issue resolution, and overall project management.

Expertise

Project management is a recognized profession, much like an accountant, attorney or doctor. Would you expect your doctor to advise you on legal issues? Many companies in the last few years have come to realize that you cannot take a hands-on technical person and expect them to do their job and manage the project. In many cases, this has proven to be a primary reason that so many IT projects fail.

Customer Focus

Project management outsource providers are focused on providing the highest levels of competent project management. They are focused on attracting and retaining the highest quality project management professionals. Since this is their primary business focus, they will also ensure their employees have the necessary experience, training and professional certifications.

Just-in-Time Project Management

Businesses that either have occasional projects or cannot afford to pay full-time project managers could benefit from outsourcing. Other companies with either too many priority projects or limited project management resources could also benefit. The outsource provider could be paid a retainer fee to ensure they deliver project managers as needed. The project managers would be trained on your specific processes and follow the outsource provider's standards. Simply using temporary project managers will not give you a standard approach and best practices that you could obtain through outsourcing.

Written Service Level Agreements

Instead of outsourcing, temporary employees could be used on an ad-hoc basis. There are many temp agencies that are able to provide very qualified resources. However, this approach will not give you the synergies that an outsourcer can provide. As mentioned earlier, a project management outsource provider will deliver consistency in standards and practice. With an outsourced project management function, SLA's would be written to ensure you are getting the top talent in the industry and your expectations are met or exceeded. Another advantage to outsourcing would be the time you save by not coordinating with various agencies, reviewing resumes and interviewing to fill a need. All of these activities would be performed for you through the outsource provider. This offers you protection and some level of recourse that you may not have with temporary employees.

Summary

There are three options when it comes to project management: keep it in-house, outsource it or use temporary employees as needed. Each company is different in terms of their needs, risk tolerance, standards and policies. Understanding your strategic direction and weighing the benefits of outsourcing should lead to the right decision for your company.

In the same way organisations outsource entire AP⁵ functions in efforts to benefit from not having to support the various levels of resources and associated cost, it is proving a similar story when outsourcing the whole project management discipline and receiving a highly qualified team of resources that would otherwise not have been available on an in-house basis.

References:

Mark E Mullaly and various other authors at Gantthead.com

About The Author

Laurence Nicholson is a Senior Manager in Xoomworks Limited, an IT and Business Consultancy Services company, and Heads the Project Management and Audit Practice. He has been consulting in the field of Project Management for over 15 years across numerous industries including Upstream Oil & Gas, Public Sector, and Media & Entertainment.

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⁵ Accounts Payable