Beyond Cost-Cutting

How Managing by Projects Sets the Stage for Sustainable Growth
With dwindling budgets and a worldwide slowdown in markets for products and services across the board, the pressure has never been greater to drive efficiency and contain costs.

Yet, in the words of Tom Peters, “You can’t shrink your way to greatness.” So wise companies use any business contraction to prepare for growth. They also realize that the kind of growth available to companies emerging from recession is not based on old business processes and models, but on innovation.

No More Business as Usual

During good times or bad times, smart companies:

» Have goals — strategic, operational and tactical — and are vigilant in monitoring, assessing, changing and aligning all initiatives to those goals.

» Assess the market and their competitors, and look for opportunities on every level (cost cutting, operational efficiency and innovation).

» Constantly brainstorm and come up with new ideas.

» Measure where they are in relation to achieving their goals.

During tough economic times, smart companies engage in the additional discipline of questioning long-held assumptions. As we experience “creative destruction” (a business concept framed by Austrian economist Joseph Schumpeter), it is essential to ask, “What were the important assumptions we have been working under for the past decade that may no longer apply, and what does that mean for our business?”

Projects: Structure and Process for the Changing Marketplace

Project management’s track record for delivering on strategic business challenges has been clouded by the results of high-profile studies such as the Standish Group’s CHAOS Report, which has fairly consistently stated that only about one-third of IT projects are successful. Yet other research contends that when organizations focus on creating business value through projects — rather than merely hitting budget and schedule targets — their results look quite different. Our own research has shown that when organizations have a standard process for identifying and recovering troubled projects, they are significantly better positioned to succeed, closing projects successfully 83 percent more often.

What we have seen consistently is that when companies report using best practices for project portfolio management, resource management and project management office (PMO) structure, they also score higher on a range of organizational performance measures, from financial outcomes to customer satisfaction.
So how can an organization improve operational efficiencies, reduce costs and deliver vital innovative solutions?

A recent *Harvard Business Review* article offers a plan, noting that, while downturns offer a rare opportunity to outmaneuver rivals, to do so you must first systematically assess your organization’s ability to weather the storm and take corrective action. To stabilize the business, companies must first protect their financial fundamentals by, for example, monitoring cost and managing risk. Secondly, they must protect existing business operations by increasing organizational efficiency and rethinking their product/project portfolio, and divesting non-core businesses or projects with little value-add. Finally, they must work to maximize their value — by making farsighted investments, identifying potentially transformative projects and considering possible redefinitions of their business models.

This three-tiered approach is reflected in the graphic below, which shows how, beginning with the discipline of project controls to cut costs and improve efficiency today, companies can:

» Do things right.
» Hire or retain the right people with the right skills.
» Choose the right projects for growth and execute strategy.

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*Beyond Cost-Cutting*

*From Methodology to Execution*

Step by step, up the organizational hierarchy, project management disciplines and structures help build a sustainable platform for growth.
Beyond Cost-Cutting

By promoting solid project management processes, methodologies and culture, leading a well-governed Project Portfolio Management (PPM) process and aligning strategy and projects, even recession-challenged companies can emerge from the downturn with the right people, processes and projects in place to outperform their competitors. But to do so, an organizing nexus will be needed: a strong, strategic Project Management Office (PMO).

Poised for Growth: The PMO’s Role

In boom times, growth can be a happy accident: the rising tide effect of a generally strong economic outlook. But to thrive on adversity takes careful husbandry of resources and planning for the future. Such organizational focus is the result of centralizing the management of high-value initiatives in such a way that the “hygiene factors” of cost containment and operational efficiency work in tandem with processes for innovation, development and strategic execution.

A strategic PMO fulfills this role by providing four key services to the organization:

1. **As a “Center of Excellence” in project management,** the PMO applies discipline to all of the project-related work of the organization. Studies by PM Solutions’ research division have consistently over a 10-year period shown that, on average, implementing project management methodology resulted in cost savings of more than $1 million for surveyed companies. In the most recent study, companies reported average cost savings of $19 million. And timely delivery of projects not only saves money, but can bring in new business more rapidly.

For example, Merchants Insurance Group reached out to PM Solutions for guidance on how it could execute and manage the company’s growing number of projects most quickly and efficiently. PM Solutions recommended a targeted mentoring program and worked with Merchants to implement an appropriate PMO structure that would centralize project and portfolio operations. On-time project delivery improved to 80 percent, resulting in one program booking $100,000 of business in the first three days, and another program realizing 758-percent revenue growth in the first two months of introduction.

2. **As an organizational home for project personnel,** the PMO streamlines resource management — the area of toughest challenges for most companies, according to our research. Why is this a key area of focus? Consider this: The 2009 CHAOS Report showed, after several years of improvement, a rise in the number of failed projects. Standish Group President Jeff Johnson speculates that staff reductions led to less people doing the work (on the business and IT sides); therefore, projects are taking longer and, when they take longer, they lose their relevance and value.

The conventional wisdom has it that laying off per-
sonnel, not developing them, is the right move in a downturn. Yet, losing intellectual capital hurts organizations in ways that outlast recessions, impairing the organization’s ability to compete over the long term. On the other hand, improving workforce effectiveness and capacity, by organizing and developing people in the most effective manner, can boost productivity, even without adding headcount. Two recent studies from PM Solutions have underscored this fact.

- In the 2007 study, “The State of the PMO,” companies with mature enterprise PMOs both centralized project resources in the PMO, providing for their hiring, development and performance evaluation, and scored consistently higher on a range of organizational performance measures such as financial performance and customer satisfaction.

- In the 2008 study, “Resource Management Challenges,” the top-performing organizations on those same performance measures were those who had mastered a set of resource management best practices, including instituting a strong PMO to manage projects and project resources.

3. As an innovation hotspot, the enterprise or strategic PMO is increasingly becoming a laboratory for the testing of new processes. Think Agile. It was by way of the IT PMO that Agile software development methods were introduced, tested and now are making their way into the management of projects and processes other than software.

Recent books and research have applied Agile methods to project management, the project portfolio and general management in a variety of industries. Not surprising, because at its core, Agile methodology is about getting high-value, idea-based work done faster with a minimum of bureaucracy. When red tape is cut, time to market shrinks, bringing a faster return on investment.

- Recent surveys on innovation show that leading companies recommend investing in new processes and implementing cross-functional teams to drive an innovative response to economic challenge.

- By nature, projects are full of “zest factors,” those influences that lead ordinary teams to achieve extraordinary outcomes. Faced with a deadline, a clear goal, a pressing challenge environment and the team-based, cross-functional environment that characterizes projects, even a slimmed-down PMO staff can drive change and deliver great projects.

4. As the nexus of strategic vision and task execution, the PMO serves to break down the communication barriers between projects and the executive level. It provides a logical home for the portfolio governance and management processes, whereby data from project level meets strategy from the enterprise level, one informing the other. Increasingly, PMOs are sporting names that reveal their true nature: Office of Strategy and Planning, Office of Innovation and Planning, and even Office of Strategy Management.

As the seat of PPM for the organization, the PMO is ideally situated to streamline the flow of information through the organization while acting to capitalize on both project data and strategic vision.

PPM: The Execution Engine

As a central clearinghouse for project information, the PMO is the owner of the portfolio management process, coordinating between project level and portfolio level to make sure that decision makers have the best information in the most accessible formats. The investment decisions reflected in the portfolio form the blueprint for the work carried out by the project managers and teams within (or mentored by) the PMO.

Centralizing project work, project people and project portfolio governance offers an organization greater transparency and an immediate return on investment, creating efficiencies by conducting a project inventory to eliminate
duplications of effort.

Similarly, by conducting skills inventories and performing resource allocation across the portfolio, PMOs allow companies to leverage existing personnel for optimal productivity while growing those skills needed for future capacity.

By taking care to balance the portfolio of projects so that transformational or innovative projects are always included while maintaining non-optional business projects and targeted projects that provide growth opportunities for the company, PPM acts as a second-tier strategic plan, bringing rationality to corporate vision by making sure the human and other resources are available to carry out high-value or necessary work.

A balanced portfolio acknowledges the corporate need for innovation and institutionalizes it while giving the organization the ability to spend discretionary funding in new places to stay competitive.

By including performance measurement processes in the PMO to ensure that project and program results are measured and benefits are realized, the PMO can subtly drive organizational change. As employees measure themselves by what they are measured on, and achievements are linked back to the project portfolio, this visible data will influence people’s actions and influence the culture.

Best Practices for Growing through Adversity

Looking back at the way successful companies dealt with the 1990-1991 recession, we see that while both winners and losers reduced costs and delayed or eliminated some spending, these actions did not spell the difference between good and poor performance, according to a study by Accenture. What made the difference was “openness to innovative perspectives on existing knowledge, tools and relationships.” Winning companies strengthened their strategic position by:

- **Leveraging IT.** The high-performing companies invested in responsive information systems designed to give them the ability to manage and gain insight about their key value drivers.

- **Collaborating with stakeholders.** The winners of the last recession reached out to customers, for example, to create new products and services uniquely suited to the downturn.

- **Knowing what projects to kill.** Winning companies walked away from bad investments while losers did not.

- Finally, these companies could “execute distinctively,” applying innovative processes and ideas to overcome the challenging market conditions.\textsuperscript{31}

The study points out that, while companies could examine their assumptions and priorities at any time, the pressure of a difficult economic environment imparts a greater urgency and importance on this introspection process. Having the foresight to sense the opportunity present within a crisis is one of the “zest factors” that brings out the best in people and in organizations faced with a challenge.

**Managing costs today, while preparing** for a strong future through innovation is a tall order, but the tools, processes, and transformative culture of project management can help companies do just that.
References


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