

The Next-Generation EPMO

Balancing change-the-business and
run-the-business imperatives

Kurt Salmon ✨

INTRODUCTION

Today, most organizations are facing two major challenges: business uncertainty and an accelerated pace of change. They face adaptive challenges—global changes in societies, markets, customers, competition and technology—which are forcing them to clarify their values, develop new strategies and learn new ways of operating. In this uncertain environment, companies must execute on an increasingly complex stage. The ability to develop and implement new strategic initiatives and change gears rapidly is becoming a key differentiator and area of competitive advantage.

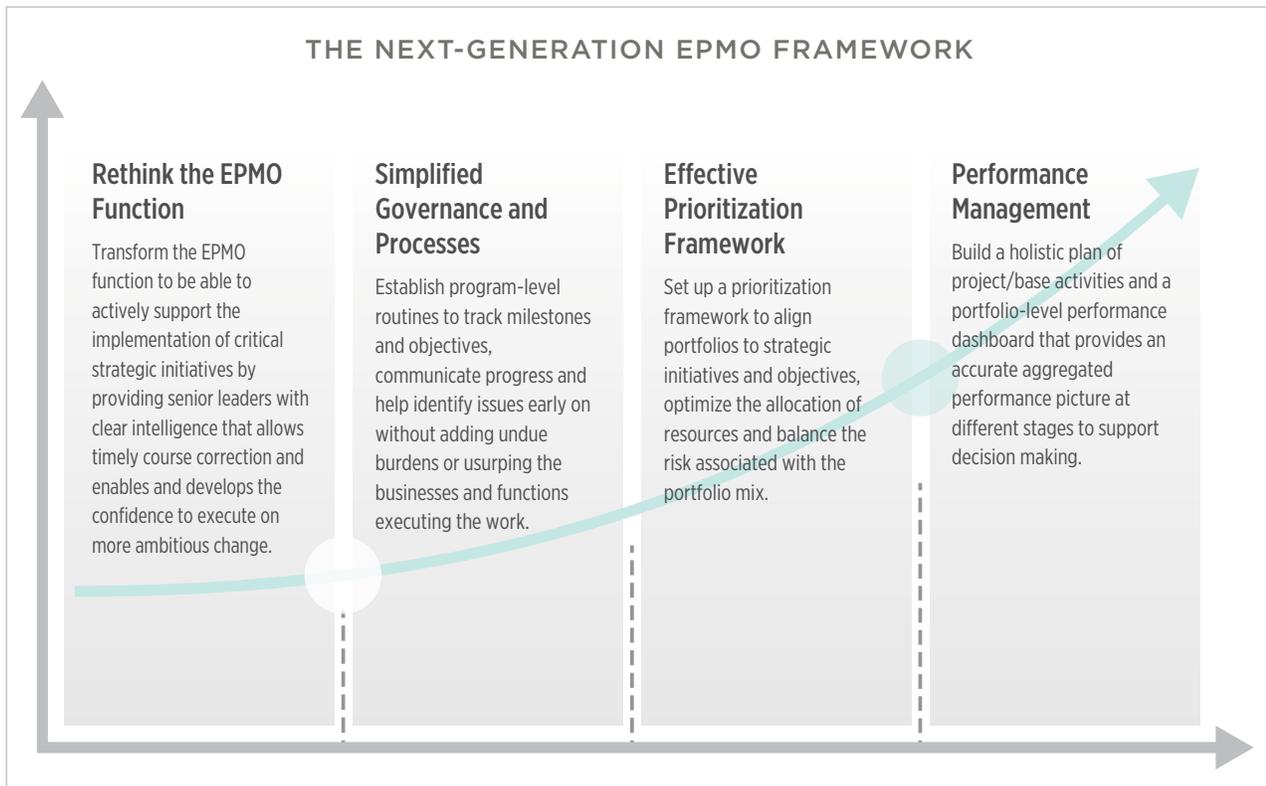
Yet many companies struggle to successfully execute on these strategic initiatives. The difficulty is blindly attributed to shortcomings in leadership, while, in reality, it is largely associated with ineffective engagement and management. Many

senior executives struggle with getting the information they need—when they need it—to make the necessary adjustments and course corrections that are critical to ensuring that large strategic initiatives deliver their target impact.

Kurt Salmon has identified four pillars that shape the framework for the next-generation Enterprise PMO and which will improve the odds of successfully delivering strategic initiatives:

1. **Rethink the Enterprise PMO Function:** Develop and nurture the right technical and strategic business management and leadership skills and capabilities within the organization and coordinate the complex interactions between divisional PMOs and various existing governance bodies.

Exhibit 1: EPMO Stack



Optimizing for excellence in both running and changing the business, however, is easier said than done.

- 2. Institute Effective Governance and Simplified Processes:** Establish program-level routines to track milestones and objectives, communicate progress and help identify issues early on. Create a comprehensive governance framework at the EPMO level: a single, overarching framework with transparent guiding principles that is fully aligned with business governance.
- 3. Set Up a Prioritization Framework to Optimize the Portfolio:** Develop a decision framework to funnel high volumes of complex demand items into a more comprehensive, organized and manageable channel to aid in prioritization, enabling greater frequency of approval for initiatives delivering higher business value and strategic alignment while lowering operational risk.
- 4. Monitor and Manage Performance:** Report on the right KPIs to measure and evaluate the effectiveness of program management. Build a portfolio-level performance dashboard that provides an accurate aggregated performance picture at different stages.

Together, these four imperatives provide the senior leadership team with the confidence and forward-looking course-corrective abilities necessary to execute effectively and take on even more ambitious change. The companies that can develop these capabilities and advance their Enterprise PMOs to a more strategic orientation will significantly improve their ability to implement strategic initiatives, establishing a basis for real competitive advantage.

RETHINK THE EPMO FUNCTION TO MANAGE STRATEGIC INITIATIVES

In the past, many Enterprise PMOs have adopted a standard tactical approach—still the most common model at many organizations—that was well suited to their primary objective of supporting the delivery of departmental projects and programs. This approach, however, is no longer sufficient, and

EPMOs must enhance their capabilities and processes if they want to effectively support senior leaders and enable change within the organization.

Most organizations operate today in a world of unprecedented change. And while change has always been a constant in business, the pace of change has become dramatically faster with considerably more churn.

Organizations have significantly invested in project management and, while some may be excellent in the delivery of projects, they may not have a mature portfolio management process in place, which creates issues with the strategic alignment of programs and projects.

The three main levels along which organizations execute their transformation programs include portfolio, program and project management. These three levels have distinctly different objectives but should work coherently to deliver transformations effectively. While project management is focused on delivering a tangible outcome, portfolio management is focused on the decision-making process around which programs and projects should be executed based on their alignment with the goals and objectives of the organization. Program management is the intermediate layer that is focused on the delivery of business benefits.

While organizations may be able to deliver projects on time and within budget, the value delivered from those projects may not be optimized or fully aligned with the organization's strategy. In times when investment resources and staffing mix are limited, organizations are keen to overcome such potential value and benefit leakages by:

- » Maximizing the value of the portfolio in terms of business objectives (e.g., long-term profitability, EVA, return on investment, likelihood of success or other strategic objectives)
- » Optimizing the value through prioritized allocation of limited resources, reliable views of

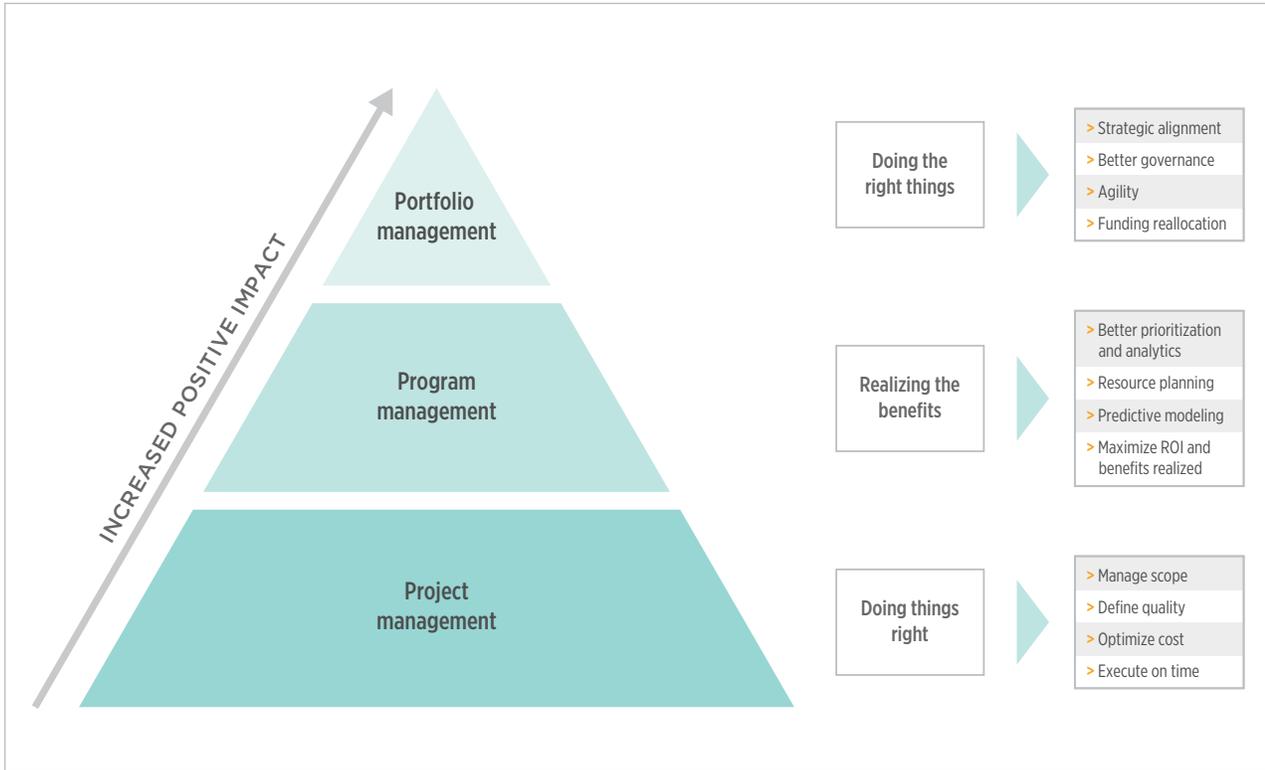


Exhibit 2: Project Portfolio Management Maturity

resource demand and capacity metrics, and improved FTE productivity

To foster competitive advantage, organizations must simultaneously optimize both how they run the business and how they change the business—the latter typically through the development and implementation of new strategic initiatives. Optimizing for excellence in both running and changing the business, however, is easier said than done. The day-to-day challenges that business leaders face in meeting run-the-business targets while managing an abundance of operational issues are enormous. Furthermore, delivering on bold,

change-the-business initiatives is a significant challenge facing many organizations. Overcoming this obstacle, however, is becoming a competitive necessity. Correctly positioned, supported and equipped, the EP MO can play an important role in helping an organization meet this challenge.

The Economist Intelligence Unit conducted a survey of nearly 600 C-suite and senior executives in which 88% of respondents said that executing strategic initiatives successfully will be “essential” or “very important” in ensuring that their companies remain competitive over the next three years. The central issue comes down to the way the

information regarding these strategic initiatives gets structured and communicated to the C-suite and extended leadership team, as well as how senior leaders engage with that information.

WHERE TO START?

Companies that succeed in implementing strategic efforts focus on several capabilities, behaviors and processes that are needed at the Enterprise PMO level to facilitate senior engagement and improve the implementation of strategic initiatives. Specifically, the following three capabilities stand out to collectively structure the right information and improve the implementation success overall:

- » **Focus on Critical Initiatives.** Provide senior leaders with operational insight through meaningful milestones and objectives for critical strategic initiatives. Such focus promotes transparency and course correction around emerging issues.
- » **Foster Talent and Capabilities.** Develop and nurture the right technical, strategic, business-management and leadership skills and capabilities within the organization.
- » **Build the Case for Change.** Actively build organization-wide support for strategic initiative implementation and change management as a competitive differentiator.

Focus on Critical Initiatives

The EPMO should support the business by identifying clear, actionable insights into how implementation efforts will proceed. All EPMOs encourage the creation of milestones, activities and objectives for initiatives but, in many cases, the traditional approaches simply aren't effective for large, complex and fast-moving change initiatives. They generate either too little or too much information, obscuring what is really happening rather than providing senior leaders with clear intelligence that allows for timely course correction.

EPMOs need an enhanced process to develop roadmaps for strategic initiatives. Such roadmaps must identify the set of critical milestones that provide senior leadership with a basis for operational insight into what the initiative is about, what the critical known risks and interdependencies are, and how the initiative is progressing through **forward-looking lead indicators**.

The EPMO should focus solely on a small number of critical milestones (typically 10 to 20 per roadmap), along with explicit time frames, financial and operational metrics that are aligned with overall objectives, and clear accountabilities. The milestones set a cadence for the entire change program, breaking it into more manageable pieces that become much more easily attainable. This requires establishing clear metrics and KPIs that must be as quantifiable and specific as possible.

EPMOs should also support the business in identifying and describing critical risks, assumptions and interdependencies that are linked to specific operational objectives and then connecting them to milestones with explicit trigger dates and metrics for their testing and assessment. The ability to provide regular updates from roadmap owners allows senior executives to readily understand progress and any emerging problems.

To ensure that roadmaps are sufficiently detailed and robust, many high-performing EPMOs apply some form of a "stress test" before an initiative can be launched. A stress test should be designed to determine whether the roadmap underpinning an initiative is sufficiently clear. It also facilitates consistency of quality across projects and programs within a portfolio. A stress test assessment ensures that the roadmap contains the necessary information for senior leaders to make course corrections when needed.

Implemented correctly, this rigorous approach helps establish a robust cycle where information

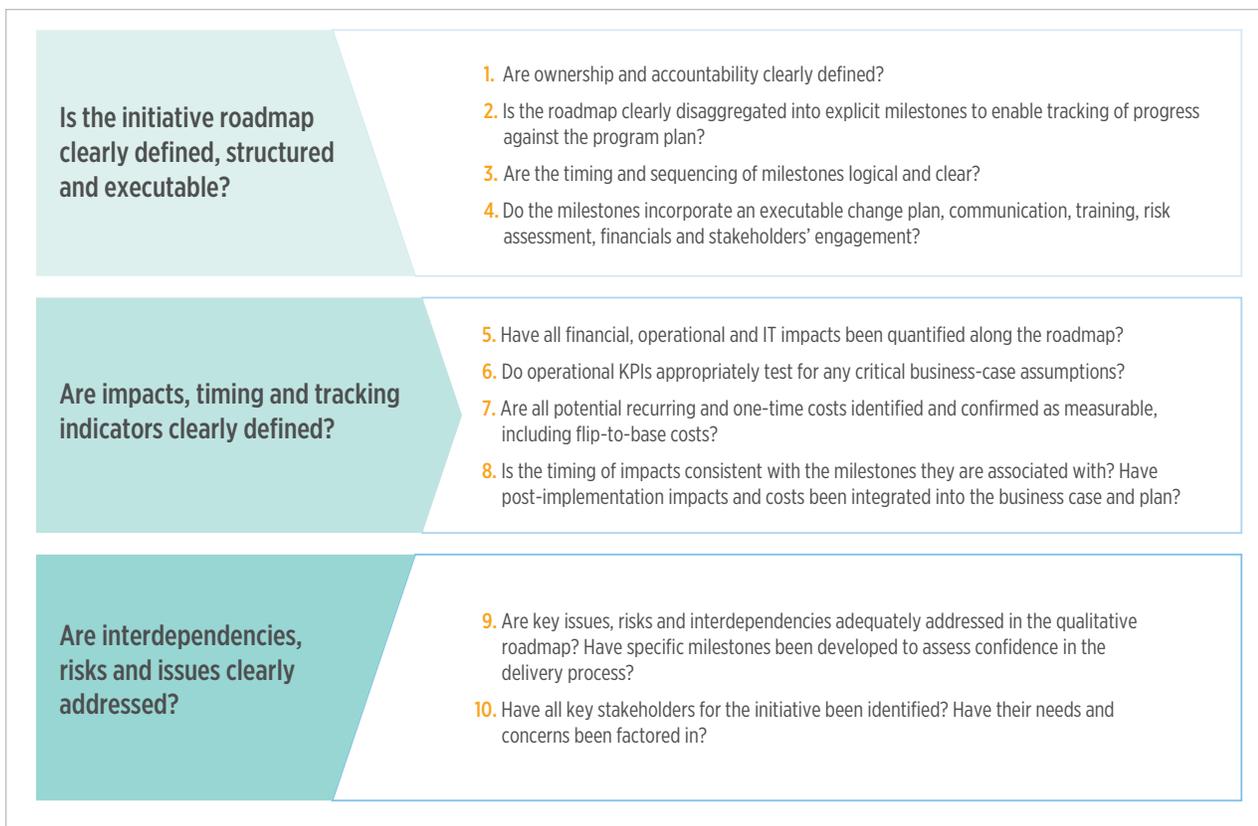


Exhibit 3: Stress Test

delivered at the right level of operational detail—and in nontechnical jargon—leads to greater understanding among senior executives.

Foster Talent and Capabilities

Adopting a more strategic orientation means that the EPMO will need to occupy a new role in the implementation of strategic initiatives, which, in turn, requires enhanced capabilities. EPMOs must have the right people in place to actually serve as **catalysts of value** in support of strategic initiatives. EPMOs should no longer focus talent development solely on technical project-management skills. Organizations also need to develop a portfolio of

talented EPMO staff with business management and leadership skills.

Kurt Salmon's experience shows that when companies invest in the right human capital and program-management tools and disciplines, this performance gap grows even larger, with organizations able to over-deliver on initiatives.

So what are the skills PMO teams need to develop if they aim to help the organization implement strategic initiatives more effectively? They must develop the ability to deal constructively with highly complex situations, asking key questions, defining the scope of problems and breaking

The key to optimized business-IT governance and related processes is the establishment of a comprehensive governance framework at the EPMO level.

large challenges into smaller tasks. Delegation, coordination and risk management are crucial as well. In addition, EPMO and PMO teams must be able to motivate and influence people without formal authority. Project and program managers need to exhibit superlative communication skills, and they must understand institutional politics and both the formal and informal ways of getting things done within the organization.

How to get there? It all starts with senior leadership's recognition of the importance of deepening the organization's program- and project-management skills and acknowledgment of the critical role that the EPMO can play. The organization needs to establish a baseline for current capabilities, identify future needs and work with senior leaders to develop a plan for how to bridge any gaps.

A key organizational concern is where these project- and program-management capabilities should reside within the company. There is no single design that works for every organization; each company needs to find the right balance between developing these capabilities on an enterprise-wide basis and concentrating them within specific entities. Organizations need a senior-executive champion to help focus, refresh and advance the project and program management capabilities needed for effective execution.

Build the Case for Change

Successful implementation of initiatives requires that the EPMO and leadership team “speak with one voice” and visibly demonstrate to the rest of the organization the company's commitment to change.

So how can EPMOs help cultivate this level of support and commitment within the organization? The EPMO needs to foster transparency about problems as they come up, providing senior leaders with the means to make course corrections in a timely manner to ensure that the overall initiative achieves its target impact. This, in turn, requires an

environment in which people—especially business managers executing initiatives—are willing to raise their hands if they need help or spot a growing problem. Pointing out red flags should not evoke punishment; this behavior should be encouraged because these warning signs can identify concerns early enough to enable senior leaders to intervene before the concerns transform into real problems.

Communication is another critical component that builds organizational support for successful implementation. The best communication for any important strategic program starts with leaders articulating the case for change—why it is needed, how the organization and employees will benefit from each new initiative, how it will work, who's driving it, how the change will align with the organization's strategy, as well as the intended outcomes of the initiative.

INSTITUTE EFFECTIVE GOVERNANCE AND SIMPLIFIED PROCESSES

In many companies, business-IT governance is not managed cohesively or from a holistic, company-wide perspective. Instead, decisions are made in a siloed fashion within individual business functions or units with little thought given to how those decisions might affect other parts of the company or the company as a whole.

The key to optimized business-IT governance and related processes is the establishment of a comprehensive governance framework at the EPMO level. A single, overarching framework—one that has transparent guiding principles and is fully aligned with business governance—will increase understanding and alignment between the business and IT. It is also the prerequisite for linking business- and IT-planning processes in order to ensure that funding for technology investments is prioritized across the company for maximum business benefit.

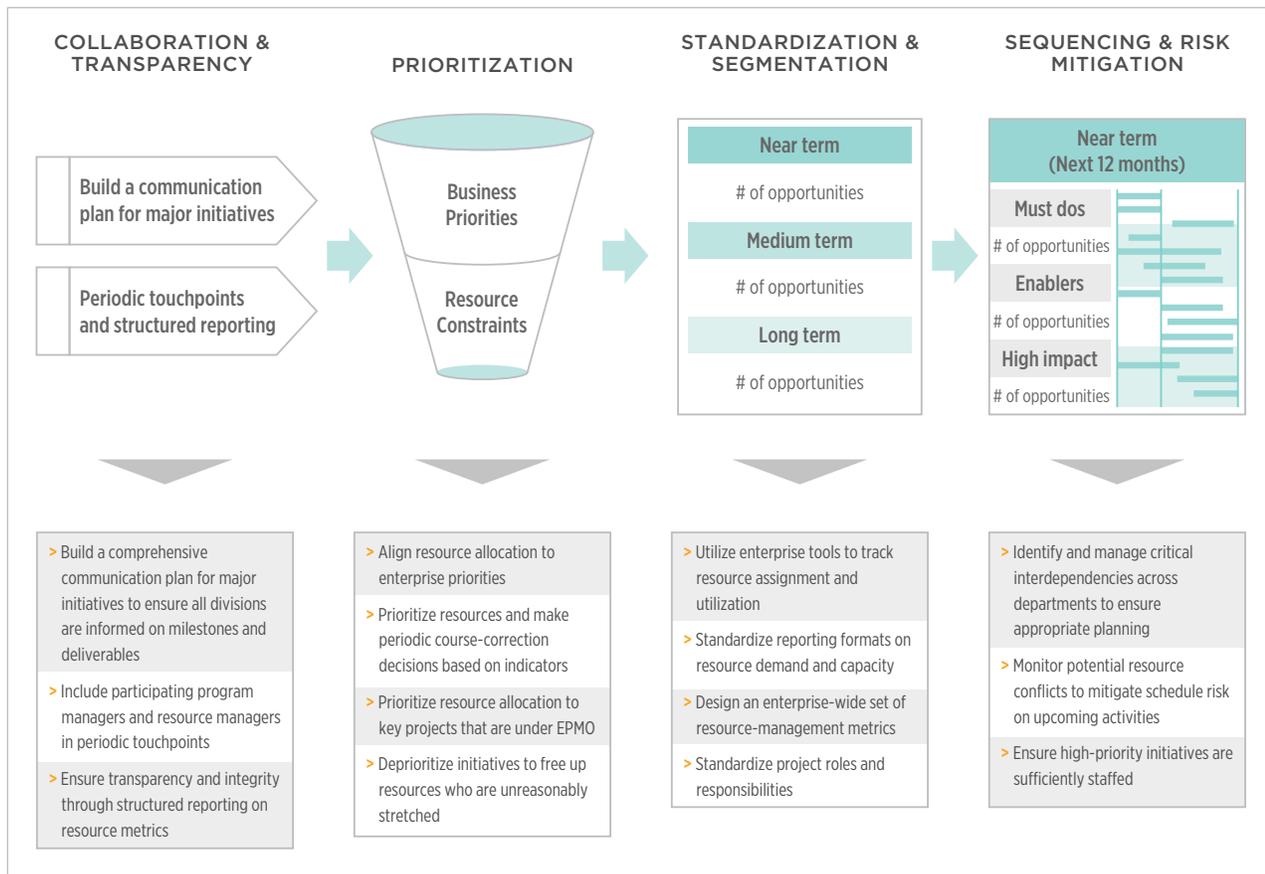
In addition, organizations need simplified processes in order to keep IT agile, flexible and efficient. Lean

tools and approaches—provided they are both properly deployed (with an eye toward continuous improvement) and supported by effective changes in mindsets and behaviors—can help engineer a fundamental transformation in the targeted processes. The results can be significant, with permanent improvements in productivity, quality and speed of execution coupled with reductions in waste, cost and operational risk.

With this mindset of simplifying governance and processes, the EP MO needs to establish repeatable routines to gauge progress in a meaningful way as initiatives get rolled out. The risk is that the EP MO may be collecting and monitoring too much

information, which can put an excessive burden on the staff executing the initiatives. Beyond a certain point, the amount of information—and the processes required to record it—becomes a new problem. This exacerbates the negative preconception of EP MO staff considered as “box-checkers,” more focused on processes than progress. High-performing EP MOs tailor their approaches to the needs of the organization by eliminating onerous routines, unnecessary meetings and excessively long reports. They provide senior executives with the information they need—and only that information—with enough *bandwidth* to make course corrections and ensure that the

Exhibit 4: EP MO Process



The EPMO needs to establish a *feedback mechanism* for *prompt and frequent* evaluation of past decisions.

initiative gets delivered. This means limiting the information communicated to executives to an overall status of the program (that is, current achievement against targets) and any emerging issues that require executives to intervene with the range of tools at their disposal—for example, removing roadblocks, fast-tracking decisions, prioritizing projects and reallocating resources.

A crucial element here is “minimum sufficiency”—the right level of systems controls, information-based assessment of progress and support by the EPMO. Successful organizations need to implement a process to identify, assess and prioritize resources to execute strategic initiatives and the portfolio of projects and programs.

In this context, establishing an effective and efficient demand intake process would ensure that resources are utilized at optimal levels. Going through a set of “checkpoints,” from building the communication plan to sequencing and building a roadmap, will ensure effective demand intake planning.

SET UP AN EFFECTIVE PRIORITIZATION FRAMEWORK

One key challenge that most organizations face when implementing a portfolio of initiatives is the ability to adopt and operationalize a framework that enables them to prioritize the portfolio of requests in a consistent, objective and fully educated manner. A well-positioned EPMO can address these challenges through achieving a “next level of maturity” around how initiatives are prioritized with existing frameworks within the organization. Kurt Salmon established a prioritization framework that uses a sequential, multistage approach through decision tree analysis, balanced scorecard evaluation and portfolio risk management, enabling the EPMO to be better equipped to make fact-based judgments on incoming enterprise initiatives.

Successful organizations are able to set the blueprints in engineering or reengineering

their prioritization framework. Using a decision framework—with *enterprise-specific factors*—organizations are able to funnel high volumes of complex change and maintenance items into a more comprehensive, organized and manageable channel to prioritize from, enabling greater frequency of approval for initiatives delivering higher business value and strategic alignment while carrying less operational risk.

Organizations should use the framework to optimize the economic value creation of the portfolio and ensure strategic alignment. The specifics of value creation differ per sector, organization and geography. Key input for portfolio optimization is a consolidated overview of all of the organization’s programs and projects, including the proper intelligence to facilitate this process. Such an overview would typically contain information about performance, budget, resource requirements, risks, business benefits, links to strategic objectives and interdependencies. Based on these defined decision criteria, the organization is now able to select and prioritize programs and projects optimized for the organization. The first key criterion in the organization’s decision framework is the amount of resources required—to match supply and demand. In order to make the portfolio executable, an organization needs to make sure that enough resources are available to deliver the programs and projects.

In most situations, organizations have a tendency to push more projects into the organization than the organization is able to handle, resulting in “project gridlock.” To overcome this issue, organizations put a mechanism into place to match supply and demand. Another common strategy in use by organizations is the management of interdependencies. Organizations use controls such as enterprise architecture to define the current state and the desired future state in terms of systems, business processes and organizational aspects. This allows them to assess whether the

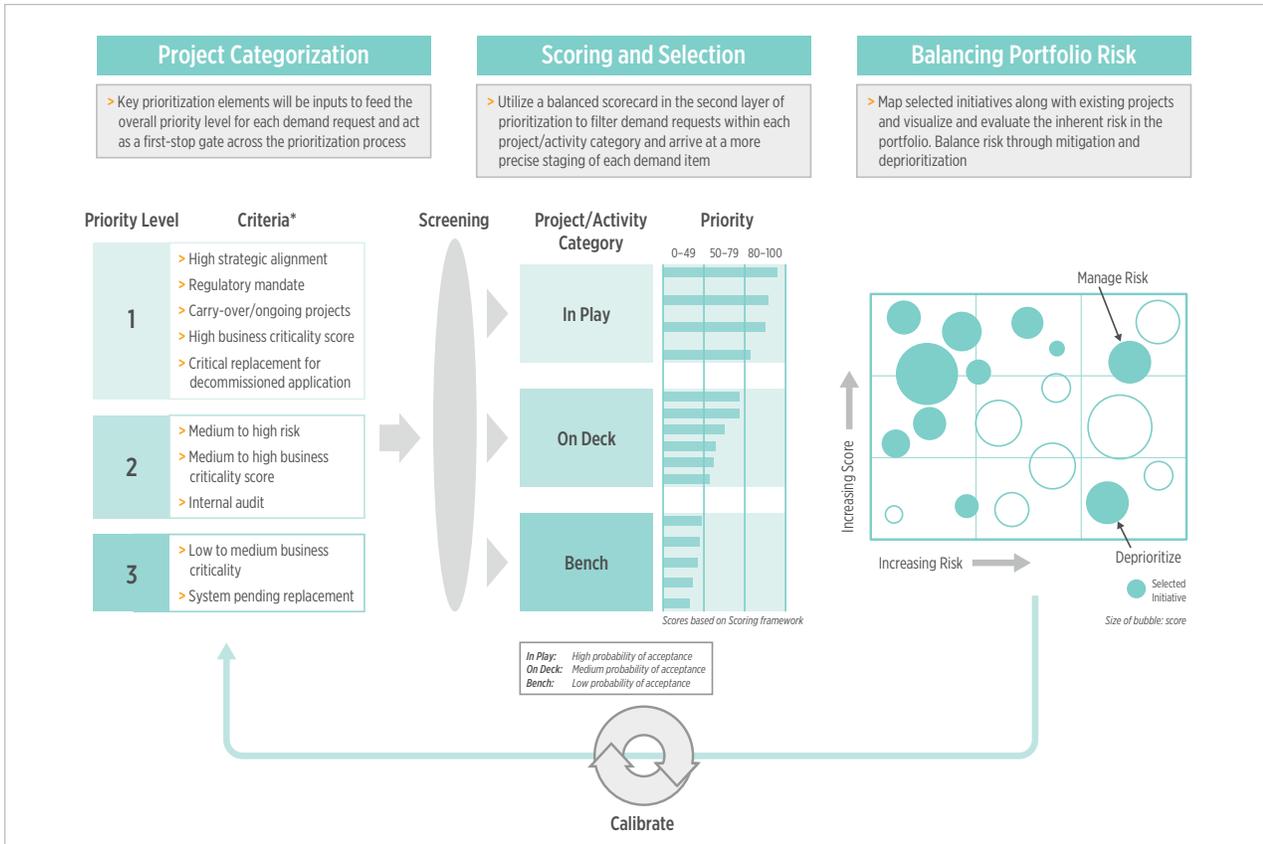


Exhibit 5: Prioritization Framework

programs and projects fit into the vision and to detect and manage interdependencies. Another key factor is risk. An organization’s portfolio should be aligned with the organization’s risk appetite to prevent the organization from implementing projects or programs that would impose too much (top-down) risk. Risks and issues detected (bottom-up) within the programs and projects should be taken into account in starting, stopping and accelerating programs and projects.

Putting It into Action

To realize these benefits, Kurt Salmon developed a calculated and fact-based approach in evaluating a high volume of complex demands through a decision tree analysis, balanced scorecard

assessment and portfolio risk evaluation. The output of such efforts is then measured by the EP MO’s empowered ability to carefully select initiatives in a consistent, comprehensive and educated manner.

The decision tree is introduced as the first stage along the process, as it’s used as a decision support model in staging each initiative item into initial preliminary priority levels in preparation for scoring. This initial stage derives its prioritization inputs, or criteria, based on areas of greatest importance to the organization: compliance, type of request (e.g., strategic initiative—highly funded, shapes the direction of the business), base activities (day-to-day activities), maintenance projects, application

criticality in meeting business objectives and risk threshold of applications.

Once each initiative item is staged into initial priority level “buckets,” it is now ready to be scored for further detailed assessment. The balanced scorecard evaluation assigns a numerical value to each item. This is accomplished through scoring each dimension based on how well that initiative meets the particular performance category.

Once the weighted scores have been assigned, the demand items fall into one of three project/activity priorities: in play, on deck or bench. The higher the score, the greater the probability the demand item has of being approved by the EPMO.

The third and final stage is the evaluation of portfolio risk through the mapping of selected initiatives—both new and inflight—to visualize and evaluate the inherent risk at the portfolio level. The premise behind this stage is to balance risk across the organization.

MONITOR AND MANAGE PERFORMANCE

Large organizations often have myriad enterprise tools, each with very specific purposes, and the reports they generate show only a single piece of the overall picture. Measuring performance management for executing the portfolios of projects and initiatives then becomes extremely challenging in most organizations, where there are typically hundreds of projects and millions of dollars of annual investment spend. How can organizations provide to senior executives effective oversight of so many initiatives? How does a manager oversee the portfolio at a level that will allow him/her and his/her team to identify projects that are going off track?

The scale and complexity of monitoring are only half the challenge. Even the best KPIs are subject to gaming from project managers, sponsors and other stakeholders. A central governance team simply does not have the time or expertise to dive into the details across the entire portfolio.

In addition to project-level metrics around scope, time and budget, Kurt Salmon recommends an approach involving five key features:

1. **Building a Portfolio-Level Performance Dashboard.** that provides an accurate, aggregated performance picture at different stages. Individual metrics combine leading and lagging indicators, as well as objective and subjective metrics. These metrics cascade down into individual project performance metrics in order to align each project manager's view of performance with the overall view.

The portfolio dashboard is used to diagnose systemic problems that need to be addressed. This approach to portfolio monitoring maximizes the chances of success by providing the best possible development environment (e.g., system build and testing). In the portfolio review, the portfolio manager is less concerned with the success of each individual project than with the portfolio as a whole. Indeed, this approach acknowledges that there is no practical way to ensure a 100% success rate.

2. **Rigorous Reviews to Identify the Most Critical Projects.** Critical projects need to receive “deep dives” to help ensure success. The scope of these reviews must be well defined, focusing only on issues that cause delivery failure. Hence, the “deep dive” should focus on one or two key questions in seven areas: financial performance, resource utilization, governance and accountability, progress against plan, benefits realization, risk management, and strategic alignment.
3. **Consequences for Breaking Rules or Poor Performance.** The EPMO must be able to influence the behavior of project managers. Rewards and penalties need to tie in with the governance framework and rules discussed earlier. Some of the most effective consequences are not disciplinary penalties.



Exhibit 6: Forward-Looking View

- 4. Post-Project Reviews.** The EPMO needs to establish a feedback mechanism for prompt and frequent evaluation of past decisions. This helps generate ideas for improvement and sharing best practices.
- 5. Building a Forward-Looking View:** Balancing demand and capacity to execute the portfolio of initiatives can be a burdensome task for most organizations. Well positioned and with the right processes established, the EPMO can support building a forward-looking view to identify resource shortages and deliver early warnings to senior executives to ensure initiatives get delivered in terms of both impact and timing. One approach is to adopt a

forecasting-improvement initiative. Most organizations face challenges in terms of linking the timing, the frequency and the granularity of forecasts to its decision needs and demand vs. capacity imperatives. The approach is to work backward from the decision meeting, specifying granularity and timing of forecasts. The next questions are how and where to get the necessary information in a speedy manner, thereby reducing the latency period between the original input and the decision. By building a similar view, organizations, with the support of the EPMO, can identify the areas driving the overall forecast error and can anticipate periods of peak demand.

CONCLUSION

Through these four established and linked pillars, EPMOs can play a powerful role in helping facilitate the successful implementation of strategic initiatives. When appropriately positioned, EPMOs can actively support and partner with senior executives and local PMOs to ensure that major strategic initiatives deliver full value while minimizing the disruption of ongoing business. In this way, the EPMO supports the business by prioritizing issues, identifying problems as they emerge, supporting complex interdependencies and providing a highly effective means for communicating the right information at the right time. Most critically, the EPMO can provide a ready ability for course correction and resource reallocation. ❖

Kurt Salmon

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ACKNOWLEDGEMENTS

The authors gratefully acknowledge the contributions of Srikanth Patil, Scott Weinreb and Adam Ghadimian for their input, which was essential to the development of this point of view.