Key Performance Indicators for the PMO: Metrics for Success

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This is part 2 of a 2-part series. Part 1 of this series focused on the co-dependent relationship between executives and PMOs. This 2nd article describes specific key performance indicators that a newly-established PMO can use to measure itself to ensure alignment with the needs of the organization.

The Project Management Office (PMO) is an office with the capacity to institute a wide variety of positive changes within a company. Indeed, many organizations understand the co-dependence between the executive and PMO, and act to establish PMOs for just this reason. Unfortunately, it is often one of the most incorrectly managed and underutilized portions of an organization. Findings presented at the 2010 Gartner ITxpo indicate that nearly half of all PMOs result in failure. The question, then, is why do such a drastic number of businesses feel that their PMOs do not deliver value?

There are a number of answers that need to be explored, but given the highly individual nature of each PMO, it is difficult to provide a definitive list of failure points. However, an issue that pervades nearly every PMO across the board is a problem of metrics. Too many PMOs do not measure their success with the appropriate key performance indicators (KPIs), and due to this failure, high-level executives can easily question the PMO's worth, particularly the results-driven chief financial officer. The PMO, with its emphasis on measuring process and protocols, can fail to focus on KPIs that are relevant to the overall progress of the business. Because of this failure to properly document its success, many otherwise productive PMOs are being shut down.

The following is a list of important *potential* KPIs by which a PMO might measure its productivity in the context of overall company success. This list has been extracted from a 2002 study conducted by the Center for Business Practices and documented in the book "Justifying the Value of Project Management." These specific KPIs are particularly relevant to executives and have been found to improve the practice of project management.

It is important to remember two things here. First, as previously mentioned, the role of a PMO is (and should always be) very specific to the needs of a particular company. One should not try to apply these KPIs directly. Rather, they should be tailored to reflect the PMO's prescribed role. Second, too many KPIs can lead to a muddled sense of where accomplishment truly lies.

Like having too many gauges on the dashboard of a car, measuring too many indicators of success can be tricky and confusing. It is better to pick a couple of KPIs that fit your company well and focus attention on those rather than trying to measure a plethora of indicators that will lead to hazy results. With those factors in mind, let's take a look at some KPIs that you can use to demonstrate the effectiveness of your PMO:

1. Time to Market

Time to Market= Elapsed Time from Idea Conception to Delivery
Alternate Time to Market= Actual Completion Time – Budgeted Completion Time

The PMO can improve a product's time to market in two ways. First, it can increase the speed at which projects are completed. The benefits here are obvious, as a project that is completed faster generally means greater customer and company satisfaction as it will be available for distribution sooner. The PMO also improves time to market by promoting better adherence to project schedules. Doing so promotes customer satisfaction, improved trust in the project team, and a greater ability to accurately predict future project lifecycles.

More importantly, it ensures that a time-dependent product, such as a video game with a pre-Christmas release date, will not miss a deadline that would result in drastically reduced or nonexistent sales. PMOs that consistently improve time to market can streamline processes. For example, projects can be rolled out on time without having to hastily skip steps in the development process.

2. Service Availability

Service Availability=Actual Start Time-Optimal Start Time

Service availability refers to the time it takes to start a project compared to the desired start date. It differs from time to market in two ways: first, it can measure the time that is allotted for specific tasks as opposed to only referring to the completion date of a final product and second, it can be measured at numerous points during project development. As a reference point for a business, it makes sense because it measures the capacity to complete more projects or allocate more time to valuable projects. Further, having a good measure of service availability allows the PMO to divert resources to critical path tasks should the need arise.

The PMO specializes in increasing service availability by streamlining tasks and accurately scheduling future projects. If the above equation has a lower number, that means a higher service availability. However, a business must be careful not to have such a high amount of availability that resources are being benched. Wasted resources can drain just as much money from a business as a poorly managed service schedule.

3. ROI

*ROI= (Revenue-Investment)/Investment*100*

The PMO contributes to a company's ROI by making sure that projects are successfully completed according to the specifications laid out by the parent company and other key stakeholders. Because of this, examining ROI as a KPI offers an incomplete view into the productivity of the PMO. This is because the PMO does not generally influence financial returns directly. Rather, it provides the framework upon which success can be built. ROI, then, must be looked at in combination with other metrics to determine the specific influence of the PMO on the overall performance of a business. ROI can be used to measure success, but it should be looked at on a per-project basis to determine the actual impact of the PMO.

4. Sales Growth

Sales Growth= (Current Sales- Previous Sales)/Previous Sales

The PMO contributes to sales growth in much the same way that it influences ROI. It does so by providing an environment that allows sales to grow more effortlessly, often by improving the other metrics in this list, such as time to market and service availability. Still, measuring sales growth does not specify the PMO's role in the improvement of that growth. Nonetheless, improving sales growth will likely appeal to high level executives, and in particular CFOs, because it is something savvy investors look for in a company. As such, and despite its obvious limitations, sales growth is an important metric because improvement in this area creates more financial opportunities for a business, and can convince many nonbelievers of the importance of a PMO.

5. Service Utilization

Service Utilization= Billable Hours/Total Hours

In addition to streamlining tasks by increasing service availability, service utilization allows a PMO to ensure that time is being used efficiently. Here, service utilization means looking at the resources assigned to a project, and in particular, the human resources. An advanced PMO will not only be able to decrease the number of people who are over or underworked, but they will be able to assign people to the tasks that they are best at, thus maximizing the value of their time. Increasing the quality of service utilization means a better quality project outcome in the same amount of time. This will optimize customer and employee satisfaction, and will guarantee that a business is getting the most value out of their hires and contracted labor.

Demonstrating improvement in these KPIs can help show the success of a PMO in a company. Ultimately, the PMO has not yet been accepted as a necessary component in many businesses, and so it is up to the office itself to prove the value it provides. It bears repeating, however, that since each PMO is unique, these KPIs must be looked at with an eye to the specific needs of a company. Nonetheless, armed with these measurements of success, a PMO can gain the executive support necessary to survive in a competitive business environment.

About the Authors:

Michael O'Brochta, PMP, has been a project manager for over thirty years. He is an experienced line manager, author, lecturer, trainer, and consultant. He holds a master's degree in project management, a bachelor's degree in electrical engineering, and is certified as a PMP. As Zozer Inc. President, he is helping organizations raise their level of project management performance. As senior project manager in the CIA, he lead the maturing of the project management practices agency-wide. Since his recent climb of another of the world's seven summits, he has been exploring the relationship between project management and mountain climbing. Mr. O'Brochta's papers and presentations at PMI national, international, and regional conferences have consistently been popular and well received; his last three PMI® Global Congress presentations have drawn the largest audiences at those events.

Curt Finch is the CEO of Journyx. Founded in 1996, Journyx automates payroll, billing and cost accounting while easing management of employee time and expenses, and provides confidence that all resources are utilized correctly and completely. Curt earned a Bachelor of Science degree in Computer Science from Virginia Tech. As a software programmer fixing bugs for IBM® in the early '90's, Curt found that tracking the time it took to fix each bug revealed the per-bug profitability. Curt knew that this concept of using time-tracking data to determine project profitability was a winning idea and something that companies were not doing – yet… Curt created the world's first web-based timesheet application and the foundation for the current Journyx product offerings in 1997. Learn more about Curt at http://journyx.com/company/curtfinch.