



PMI's Pulse of the Profession™ The High Cost of Low Performance

Pulse Perspective



As I travel around the world advocating for the value of project, program and portfolio management with organization leaders on behalf of PMI's 700,000 stakeholders, I hear a lot from executives about strategy and "strategic initiatives" within their organizations. I find it interesting they don't always recognize that every strategic initiative is essentially a project or program, and that all strategic change in an organization occurs through projects and programs. We hope to provide that context and make the connection through PMI's 2013 Pulse of the Profession™ report.

I am reminded of John Kotter, acclaimed author and former Harvard Business School professor, who wrote recently that "Strategy should be viewed as a dynamic force that constantly seeks opportunities, identifies initiatives that will capitalize on them, and completes those initiatives swiftly and efficiently."¹ He recognizes the inextricable link between strategy and execution, which is where project, program and portfolio management deliver unparalleled value to organizations.

Project managers have long realized the value their professional competency delivers to organizations:

- Embedding standardized practices to reduce risk,
- Insisting on active and engaged sponsors who serve as advocates for the initiatives, and
- Investing in company-supported certifications for project managers who speak a common language and therefore avoid chaos in a turbulent environment.

When organizations continue getting better at executing their projects and programs, they drive success. But when organization executives undervalue the benefit of effective project, program and portfolio management—strategic initiative management—they put real dollars at risk, and perhaps more.

PMI's Pulse of the Profession™ research, which is consistent with other studies, shows that fewer than two-thirds of projects meet their goals and business intent (success rates have been falling since 2008), and about 17 percent fail outright.

Failed projects waste an organization's money: for every US\$1 billion spent on a failed project, US\$135 million is lost forever... unrecoverable.

So if the project that fails is one of the strategic initiatives that is expected to drive organization success, it will most certainly have a financial impact on the bottom line. And if expected benefits aren't realized, competitive advantage can be squandered, efficiencies lost, and organizations cannot function in a "do more with less" business environment.

Throughout this report, you will read how high-performing organizations are doing everything they can to minimize risk by improving their project and program outcomes. Ninety percent of their projects meet original goals and business intent versus 34 percent for low performers.

And it isn't only about time, scope and budget. High performers focus on execution AND alignment:

- Maturing portfolio management practices to improve the balance between investment and risk
- Improving organizational agility to allow flexibility and quick response, and
- Tracking benefits realization past the end of a project through operations to verify return on investment

With that said, read on to find out how high performers are risking 14 times fewer dollars than their low-performing counterparts. How's that for competitive advantage?

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Project Management Institute

¹ Kotter, J. (2012, November 12). Accelerate!. Harvard Business Review, Retrieved from <http://hbr.org/2012/11/accelerate/ar/pr>

Executive Summary

With billions of dollars dependent upon the success and failure of projects, it is no wonder organizations are striving to manage projects more efficiently. Not only is it crucial for organizations to manage their projects, programs and portfolios effectively and strategically, but poor execution can lead organizations down a path to peril.

PMI's Pulse of the Profession™ finds that performance in meeting project goals, timelines and budgets significantly impacts an organization's ability to thrive. Organizations with high performance in these three measures risk only US\$20 million per US\$1 billion spent, while their less successful peers jeopardize US\$280 million for the same US\$1 billion spent. That 14 times divide could make the difference between an organization sustaining or discontinuing operations.

The imperative to improve project management for competitive advantage is clear. In spite of barriers to implementation—including the need to do more with less, expanding global priorities, and enabling innovation—there are lessons to be learned from high performers and successful projects that can be replicated across organizations of all types to improve their value.

The best performing organizations approach project, program and portfolio management differently from their peers:

1. They create efficiencies to drive organizational success.
2. They focus on talent management and improving its role in project management.
3. They employ project, program and portfolio management practices strategically.

The best performers standardize and mature their project, program and portfolio practices over time to drive organization-wide efficiencies—but they don't stop there. They also deploy these tools with talented staff and empower them to lead their projects—not just manage them—by training them in best practices and carving out defined career paths.

High performers drive project, program and portfolio management strategically, with top management visibility, active executive sponsors on projects, and use of consistent and standardized project management practices. And they deploy these competencies with the goal of maximizing organizational value.

The following pages explore these findings in greater detail and chart a path forward for how all organizations can optimize project management to achieve success.



The Risks of Undervaluing Project Management

Projects and programs drive change in organizations. When they fail, organizations lose money and market share, and they become less likely to execute their strategies and squander competitive advantage. With stakes this high, projects, programs and especially the portfolio cannot be left to chance. They need to be managed by skilled, trained professionals in a standardized way throughout an organization and align with organizational strategy to ensure success.

The third global survey on the current state of project management conducted by PricewaterhouseCoopers LLC (PwC) in 2012 revealed that as many as 97 percent of respondents believe project management is critical to business performance and organizational success, and 94 percent believe project management enables business growth.

However, this year's Pulse of the Profession™ finds that organizations undervalue project management and put inadequate focus on talent development. Only about half of respondents (54 percent) say their organizations fully understand the value of project management. Although this year's Pulse demonstrates

the strategic imperative of mature project management, this competency often lacks representation at the highest levels, with only six percent of organizations having a project management-related role at the C-level.

Perhaps as a result of this undervaluing of project, program and portfolio management, project success rates are declining. This suggests that organizations must mature their project, program and portfolio practices to reverse this trend and promote success across the organization. Since 2008, the percentage of projects that project managers say have met their original goals and business intent has declined 10 percentage points (from 72 percent in 2008 to 62 percent in 2012).

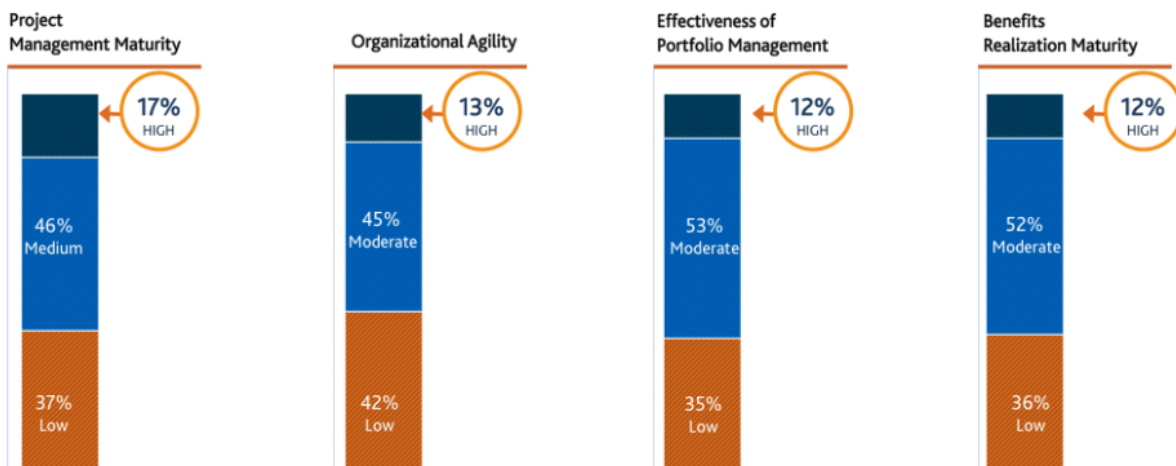
Declining project success rates have ramifications that extend beyond the scope of any individual project. When project timelines are not met, when budgets are exceeded or when intended project goals are not fulfilled, unintended demands are placed on other resources—people, projects, products, budgets and overall organizational goals. This boils down to wasted money that an organization can never get back (see Figure 1).

Figure 1: Organizations risk losing an average of US\$135 million dollars for every US\$1 billion invested in a project.



Respondents report that portfolio, program and project management practices in their organizations are not yet mature (see Figure 2). Organizations will continue to put money at risk unless they invest in ways to correct this—by moving to a strategic model where project, program and portfolio management is integrated at the core of their organizational culture.

Figure 2: Only a fraction of organizations have high maturity levels.

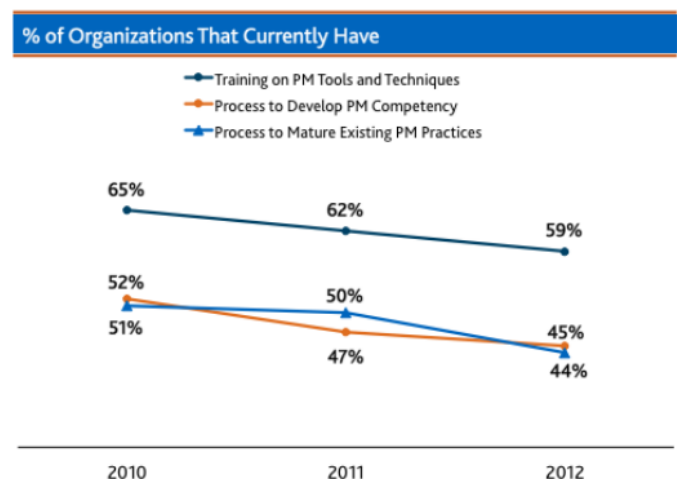


Training and Development is Critical

The Pulse shows that training and development in project management has declined since 2010 (see Figure 3). Fewer organizations are providing training on project management tools and techniques (from 65 percent in 2010 to 59 percent in 2012). Less than half have a process to develop project management competency (45 percent, down from 52 percent in 2010) or have a process to mature existing project management practices (44 percent, down from 51 percent in 2010).

With these trends, it is not surprising that only four in 10 project managers (42 percent) say there is a defined career path for project management within their organization. And the lower the project manager's title in a company, the less likely he or she is to say there is a defined career path. As such, organizations could risk losing talented yet developing project managers who might feel the need to look for jobs with a more predictable career path.

Figure 3: Internal training and related processes are on the decline.



Driving Organizational Success in a Complex Environment

It is vital to understand what high-performing project management organizations look like and how they execute. To do this, we looked at the data through the lens of organizations that are high performers and those that are low performers with respect to project success (see Figure 4).

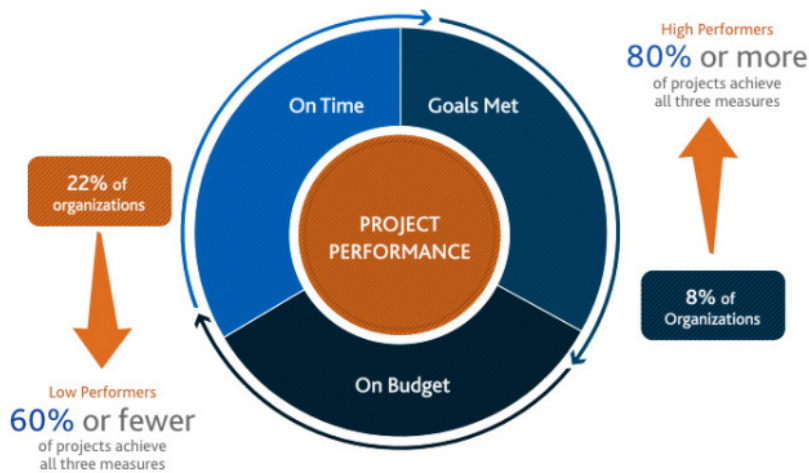
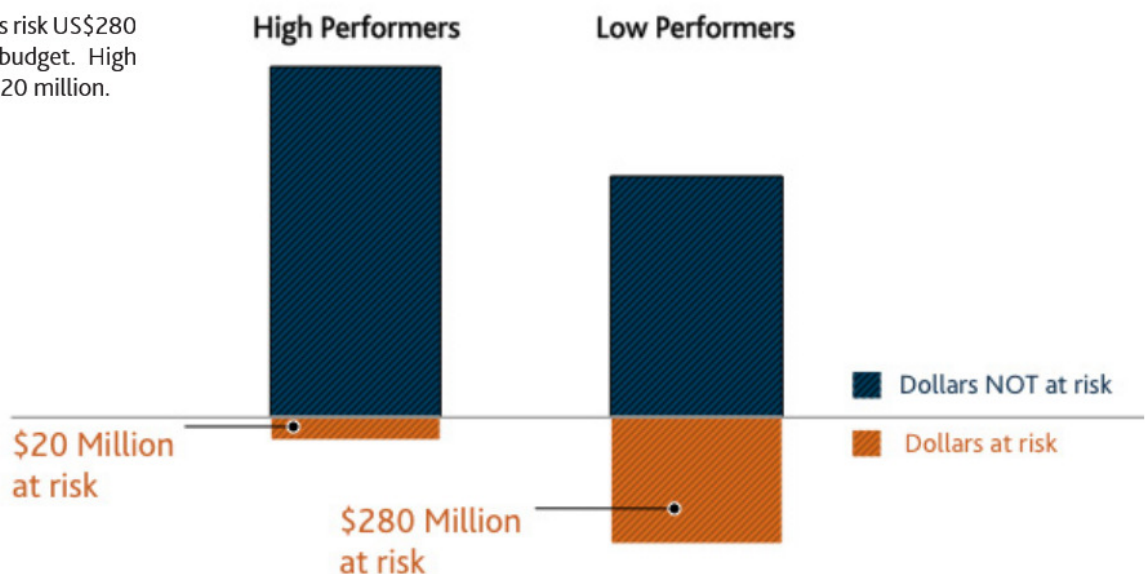


Figure 4: Performance level is determined by percent of projects meeting three project performance measures.

Only eight percent of organizations are considered high performers, while nearly three times as many organizations (22 percent) are low performers. Being a low performer severely impacts the success of an organization—low performers risk wasting 14 times more money on projects than high performers (see Figure 5).

Figure 5: Low performers risk US\$280 million of a US\$1 billion budget. High performers risk only US\$20 million.



The Drive for Efficiency – Doing More with Less

The imperative to strive for high performance and reduce dollars at risk has never been clearer. Global economic pressures persist, making it critical for organizations to accomplish more with fewer resources.

PMI's Economic Snapshot Survey reports that in 2012 there was an increase in the number of projects that have been delayed or canceled due to economic conditions, reversing a trend seen in the two years prior (see Figure 6).

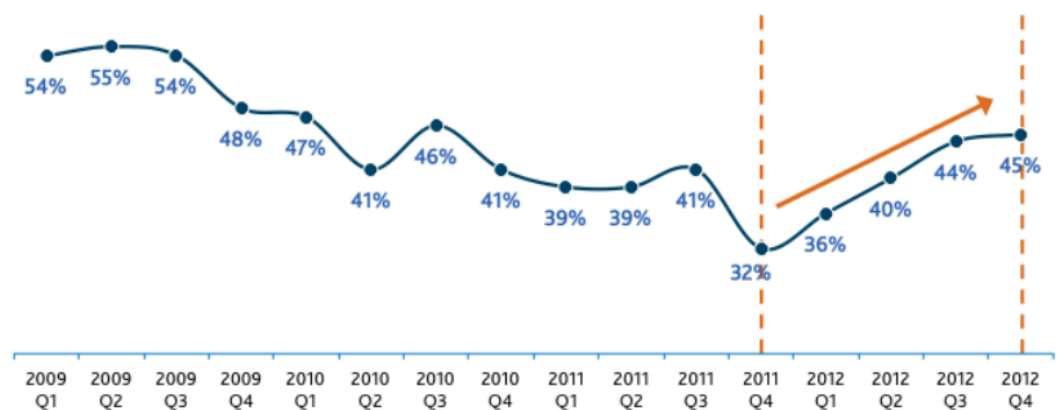
Although economists forecast slow growth in the global economy until 2016, this increase in canceled and delayed projects suggests a broader trend of organizations misunderstanding the value of project management. It is crucial for organizations to align projects with broader business strategies and position project, program and portfolio management as key business drivers for organizational success, particularly in light of the business pressures that will only continue to mount:

Declining confidence in revenue growth – PwC's 16th annual Global CEO Survey showed that only 36 percent of global CEOs are 'very confident' their companies will see revenue growth over the next 12 months, down from 40 percent in 2012 and 48 percent in 2011.

Expansion into new and emerging markets – In the 2012 Wipro Global CXO Study, a survey of more than 300 CEOs and other C-level executives at global enterprises (US\$500M-plus in annual revenue), 75 percent of respondents indicated that investment and expansion into emerging markets are extremely or very important to their strategies today. Strategizing entry into these emerging markets will likely increase competition and create more projects for organizations, which may or may not have additional resources to dedicate to them. In the latter case, resources will be strained and project managers will be left to figure out their best uses.

Localizing skills – Research conducted by McKinsey shows that 443 emerging market cities will account for a staggering 47 percent of global GDP growth between now and 2025. According to these data, organizations not only need to shift their focus and resources to these emerging markets to capitalize on their growth but they need to do it in a way that leverages local capabilities. This might be an opportunity for further localizing project management to develop economies of scale and increase efficiency.

Figure 6: Percent of projects canceled or delayed due to the economic conditions has increased since Q4 2011.



Source: PMI's Economic Snapshot Survey

What Sets High-Performing Organizations Apart?

In this complex environment, understanding what it takes to become a high performer has the potential to improve an organization's outcomes. The Pulse finds that high performers are significantly more likely than low performers to focus on talent management, support standardized project management and strive for continual alignment (see Figure 7).

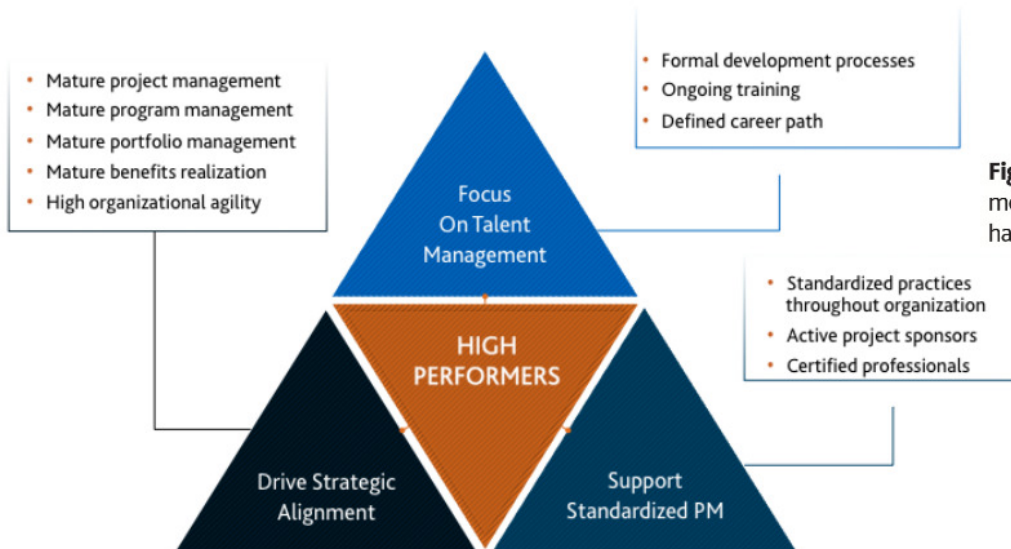
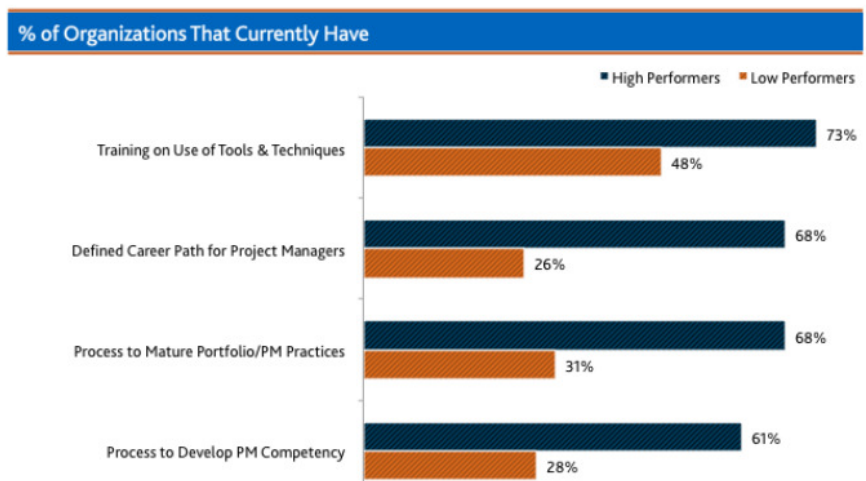


Figure 7: High performers are significantly more likely than low performers to report having each practice in place.

High-performing organizations provide consistent and continuous training and development for project managers to enhance organizational success (see Figure 8). They are significantly more likely than low performers to have a defined career path for project managers, have a process to develop project management competency and provide training on the use of project management tools and techniques.

Figure 8: High performers have more training in place than low performers, which implies that focusing on talent management improves project success.



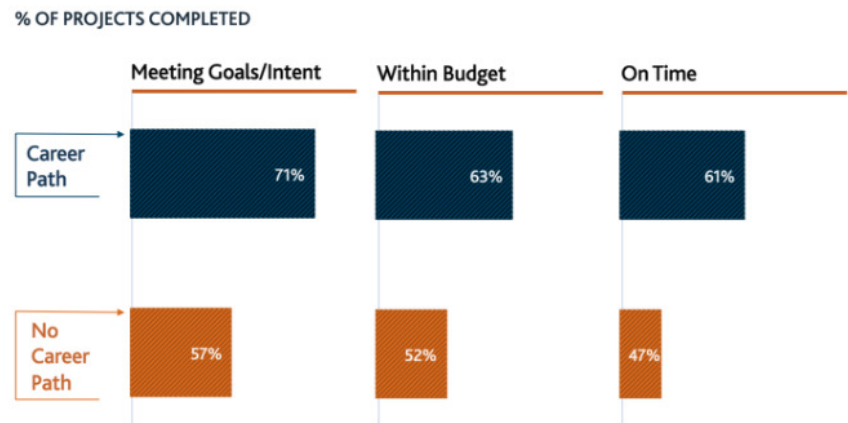
Having a clearly defined career path for project managers leads to higher project success. Looking at specific project outcomes among organizations that have a defined career path versus those that do not, the data clearly show a higher rate of projects completed on time, on budget and meeting goals (see Figure 9).

Organizations that have ongoing training for staff on the use of project management tools and techniques also have better project outcomes (see Figure 10).

Other reports confirm the importance of talent development in organizational success. The third global survey on the current state of project management from PwC showed that 67 percent of their participants agreed that project management training contributed to business performance. Of the respondents who indicated training was available, survey data revealed that a majority of their projects performed higher in three of the five key performance indicators—scope, quality, and business benefits.

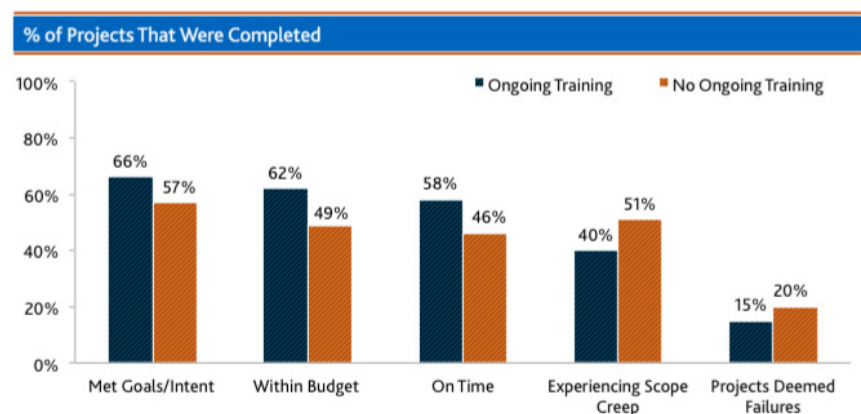
Booz & Co's annual Global Innovation 1000 research also confirms that the performance drivers of innovation are not how much money an organization invests in innovation but rather the quality of their talent, processes and decision making, and how organizations use money and other resources. Talent, processes and decision-making are the pillars of project management, making it a key framework through which to innovate.

Figure 9: Organizations with a defined career path have higher project success rates than those organizations without a defined career path.



"Having a clearly defined career path for project managers leads to higher project success."

Figure 10: Ongoing training contributes to project success outcomes.



Support Standardized Project Management to Drive Efficiency

Standardization leads to an efficient use of resources, which allows more time and resources to focus on leading, innovating and delivering products and services—and ultimately leads to a competitive advantage. High-performing organizations are almost three times more likely than low-performing organizations (36 percent vs. 13 percent) to use standardized practices throughout the organization, and have better project outcomes as a result.

Having active project sponsors - executives who actively champion the strategic value of projects and communicate the intended benefits to stakeholders - is critical to the success of an organization's projects. But support from high levels within the organization must be sincere. As Jeffrey Liker notes in *The Toyota Way*, "... the difference between success and failure is the difference between head nodding and verbal support from the

Standardization is also critical, as more organizations seek to innovate through partnerships with other entities that have historically been competitors. The 2012 IBM CEO Study revealed that 53 Percent of CEOs innovate with partners. The Wipro Global CXO Study reports that 81 percent agree innovation requires getting new products and/or services to market swiftly. In his book *Open Innovation: The New Imperative for Creating And Profiting from Technology*, Henry William Chesbrough defined these partnerships as "open innovation" and posited that "open innovation is a paradigm that assumes that firms can and should use external ideas as well as internal ideas, and internal and external paths to market, as the firms look to advance their technology." Open innovation also highlights the necessity for organizations and, ultimately, project management, to have standardized practices in place to facilitate the ability to work together and, hence, the success of open innovation. The Pulse finds that less than one quarter (23 percent) of respondents indicate that standardized project management practices are used throughout their organizations.

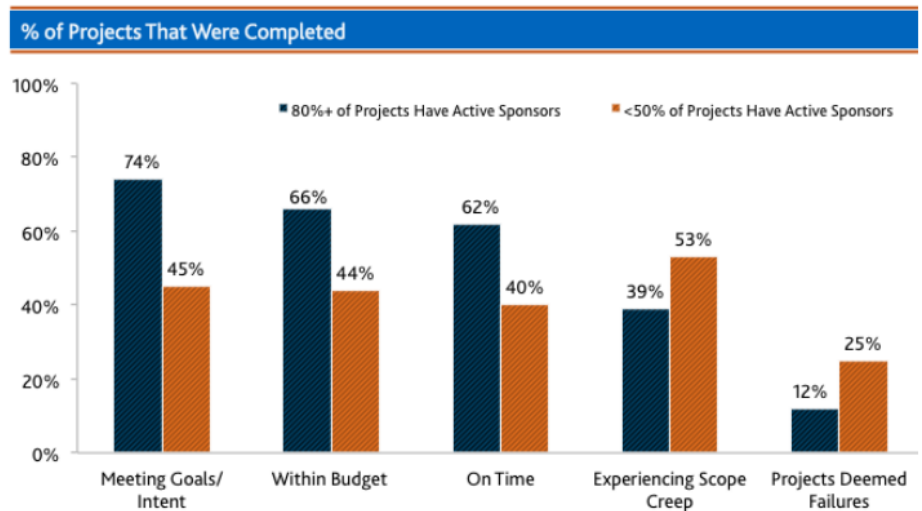


Figure 11: Organizations with a higher percentage of active project sponsors enjoy higher project success rates than those with a lower percentage of active project sponsors.

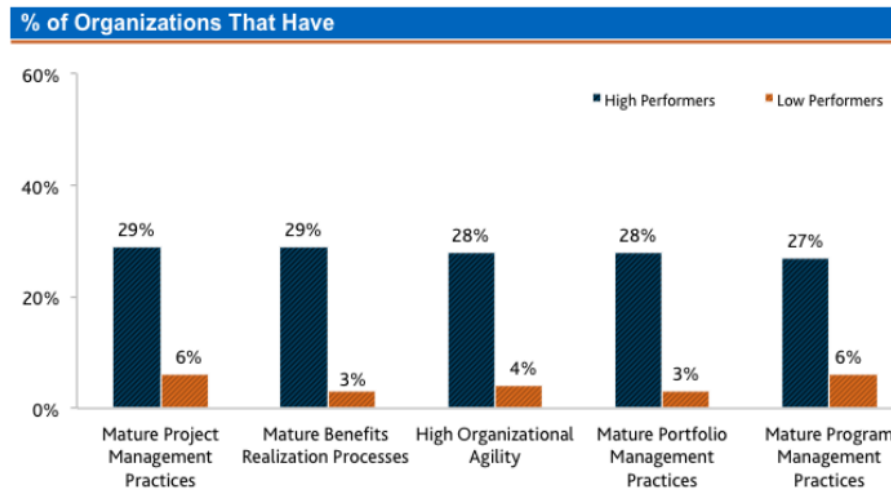
top and getting real action from the top... A committed leader must provide the resources to keep things moving. This includes top-notch people to work on lean, financial support and accountability for delivering results."

The Pulse shows that organizations with active project sponsors are more likely to have better project outcomes (see Figure 11). More than three quarters of projects (79 percent) at high-performing organizations enjoy active project sponsors, compared to less than half (43 percent) at low-performing organizations.

Continuously Strive for Alignment

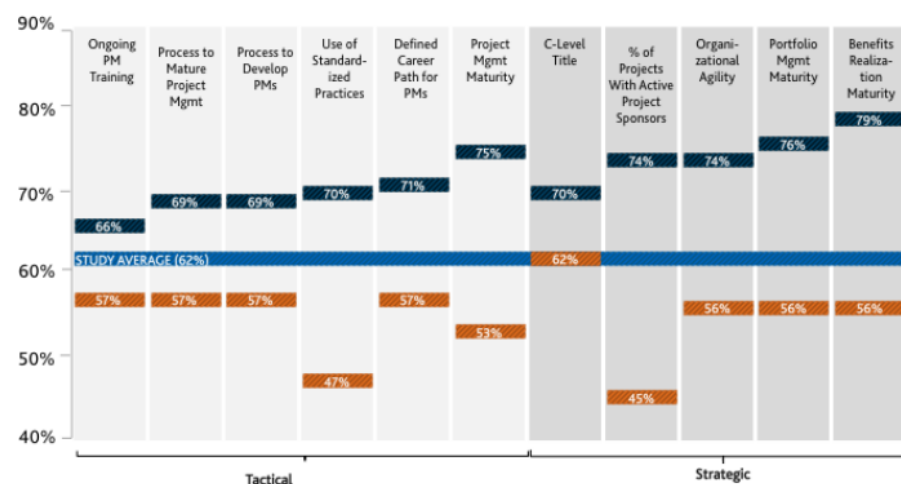
High-performing organizations are at least four times more likely than low-performing organizations to have achieved maturity in their project management practices (see Figure 12).

Figure 12: High performers have higher maturity levels.



The Pulse data show clearly that more mature project, program and portfolio management practices lead to better project performance (see Figure 13). Organizations with developed project management practices, benefits realization processes, portfolio management practices and program management practices and those with high organizational agility all have significantly better project outcomes than their counterparts who are less advanced in their project management practices.

Figure 13: Maturing practices drives projects meeting goals and business intent.



Taking Steps in the Right Direction

Although PMI's Pulse of the Profession™ survey uncovered some declines in areas such as project management training and project success rates, it nonetheless reveals some positive movement in the strategic application of project management practices and alignment with an organization's broader business goals.

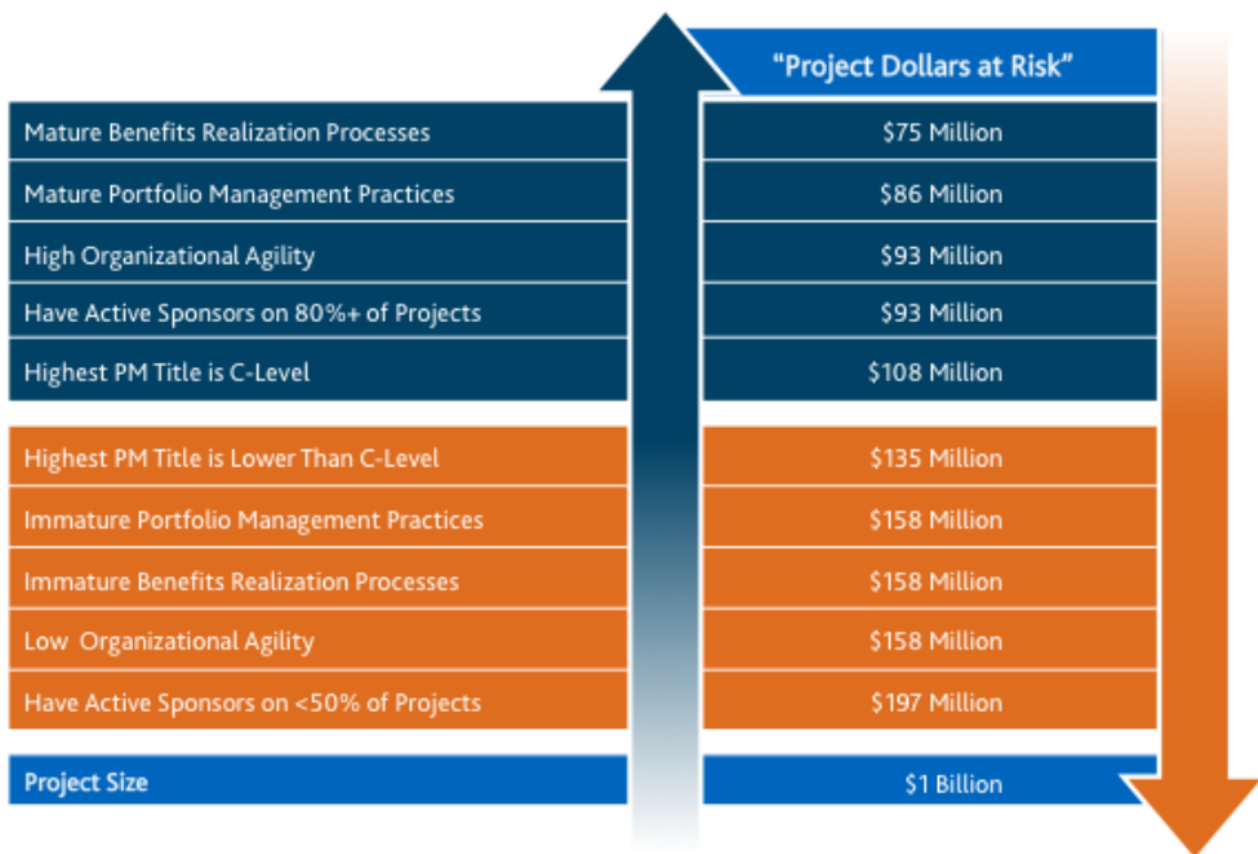
In fact, more than three-quarters of project managers (76 percent) say their projects are better aligned to organizational strategy today compared to a year ago.

The percentage of organizations with project management offices (PMOs), or a similar centralized project management department, is increasing. Nearly seven out of 10 organizations (69 percent) have a PMO, up from six out of 10 (61 percent) in 2006, when PMI first began tracking this.

Organizations are increasingly establishing PMOs with enterprise-wide responsibilities, which are growing more rapidly than those that serve a department, region or division of the organization. Compared to their department-specific, regional and divisional peers, enterprise-wide PMOs are more focused on strategic aspects of project management, such as training, portfolio management, establishing metrics, and developing core project management maturity. These findings suggest that as more enterprise-wide PMOs are created, more projects will be aligned with the business goals of the organization, and project management will be executed more strategically.

Organizations with mature project management report **more project success and less money lost due to project failure, which translates to putting fewer dollars at risk per project** (see Figure 14). Advancing maturity has the potential to distinguish successful organizations in the marketplace.

Figure 14: Project dollars at risk decrease as the maturity of project, program and portfolio practices increase.



Advancing Organizational Success

The imperative has never been more apparent—poor project performance is creating a stark divide between high performers and low performers. For every US\$1 billion spent on a project, low performers risk US\$280 million if that project fails to meet its goals while high performers risk a fraction of that—US\$20 million.

Organizations would be wise to take the following steps to minimize risk:

Three Steps to Minimize Risk



Organizations that have poor project success rates may be forced to manage their projects reactively by tightening deadlines and cutting budgets to achieve their intended results. Investing in strong, effective project management within an organization will increase project performance. Ultimately, high-performing organizations that have strong project management can create efficiencies, improve alignment with organizational strategies and put fewer dollars at risk.

About PMI's Pulse of the Profession™

Conducted since 2006, PMI's Pulse of the Profession™ is the annual global survey of project management professionals. The Pulse of the Profession charts the major trends for project management now and in the future. It features original market research that reports feedback and insights from project, program and portfolio managers, along with an analysis of third-party data. The newest edition of the Pulse features feedback and insights from nearly 800 project management leaders and practitioners across North America, Asia Pacific, Europe, the Middle East, Africa (EMEA) and Latin America and Caribbean regions.



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