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The Hackett Group: Most Companies with Project Management Offices See Higher IT Costs, No Performance Improvements

Research Details Factors Behind the Failure of PMOs as an IT Strategy At Typical Companies, While Also Spotlighting Key Practices that Enable World-Class IT Organizations to Use PMOs to Generate Superior Results

MIAMI & LONDON, November 1, 2012 – Project Management Offices (PMOs) fail to help most companies reduce IT cost or improve performance, according to new research from The Hackett Group, Inc. (NASDAQ: HCKT). In fact, companies with high utilization of PMOs see materially higher IT costs while also failing to deliver projects with higher ROI or better on-time and on-budget performance, according to the research. The research also found that companies have significantly reduced their use of PMOs over the past three years, in part due to their inability to positively impact performance.

The Hackett Group's research details the flaws that cause traditional PMOs to fail as an IT strategy, and also provides insights into the key PMO practices of world-class IT organizations, which rely on PMOs almost universally and generate superior results, including cost reduction and improved IT effectiveness.

"Since the recession, many companies have simply given up on PMOs. And with good reason," said The Hackett Group IT Advisory Practice Leader John Reeves. "The way most companies implement PMOs, they have become large bureaucratic organizations with myopic viewpoints. Too often they focus on practices that simply create a drag on the organization, facilitate design weaknesses, increase complexity and drive up maintenance and support costs. It's a shame, because the paradox is that our research also shows that when used properly, PMOs can be exceptionally effective at driving quality and reducing complexity. That's why they're a key best practice at virtually every world-class IT organization we've studied."

The Hackett Group's analysis, which is based on a review of IT metrics from in-depth benchmarks conducted at more than 200 large global companies over the past two years, debunks the common misconception that PMOs reduce costs. In fact, companies with high PMO usage see the opposite trend. While not all the cost increase is necessarily attributed to PMO utilization, The Hackett Group's research finds that behaviors associated with PMOs at typical companies become pervasive and drive materially higher IT costs. A key part of this is operating costs. The Hackett Group's research found that companies with low PMO utilization actually see 32 percent lower operating costs than companies with high PMO utilization.

The study also found that high PMO utilization did not drive better business outcomes or project delivery performance. Companies with high PMO usage showed virtually identical ability to deliver projects on-time or on-budget. They also showed virtually identical ability to achieve anticipated benefits, achieve stated ROI targets, and deliver to specifications.

PMO usage has been on the decline since 2009, the study also found. The percent of infrastructure projects managed by PMOs has dropped by over 20 percent, while its use for application projects has dropped by nearly 18 percent. Overall, only 53 percent of all IT projects are currently managed by PMOs, down nearly 12 percent points since 2009. The size of PMOs has also been shrinking, according to The Hackett Group's study, with the average number of FTEs dedicated to PMO activities falling by 41 percent from 2009 to 2011. On a relative basis, FTEs dedicated to PMO activities dropped from 6% of total IT staff in 2009 to just 2% in 2011.

Meanwhile, The Hackett Group's research showed that companies with world-class IT organizations, which operate at 15 percent lower costs and higher effectiveness levels than typical companies, rely heavily on PMOs and use them for over 95 percent of application development and infrastructure projects. The research also identified the four key practices that world-class IT organizations rely on to enable them to reverse the trend seen by typical companies and use PMOs to improve IT efficiency and effectiveness. These are: centralized IT demand management; accountability for business benefits; standardization of processes and architecture; and program and project reviews. These practices enable world-class IT organizations to effectively utilize PMOs to drive IT complexity reduction, improve ROI, and more frequently deliver projects on time and on budget.

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Media relations inquiries about The Hackett Group should be directed to Gary Baker, Communications Director at gbaker@thehackettgroup.com or +1 917 796 2391.

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"These four practices are the key to propelling a PMO forward, and generating real results in terms of reducing IT complexity, better business outcomes, and improved project delivery performance," said The Hackett Group Principal and Global IT Transformation Practice Leader Rich Pople. "Their impact cannot be overstated, and world-class IT organizations understand that.

"For example, companies which show high utilization of centralized demand management practices are able to deliver projects that meet specifications, achieve anticipated benefits, and achieve their ROI targets four times more often than those with little or no demand management," said Mr. Pople. "At the same time these companies are also 63 percent more likely to deliver projects on time and on budget. It's tough to argue with results like that."

About The Hackett Group, Inc.

The Hackett Group (NASDAQ: HCKT), a global strategic business advisory and operations improvement consulting firm, is a leader in best practice advisory, business benchmarking, and transformation consulting services including strategy and operations, working capital management, and globalization advice. Utilizing best practices and implementation insights from more than 10,000 benchmarking studies, executives use The Hackett Group's empirically-based approach to quickly define and implement initiatives that enable world-class performance. Through its REL group, The Hackett Group offers working capital solutions focused on delivering significant cash flow improvements. Through its Archstone Consulting group, The Hackett Group offers Strategy & Operations consulting services in the Consumer and Industrial Products, Pharmaceutical, Manufacturing, and Financial Services industry sectors. Through its Hackett Technology Solutions group, The Hackett Group offers business application consulting services that help maximize returns on IT investments. The Hackett Group has completed benchmark studies with over 3,500 major corporations and government agencies, including 93% of the Dow Jones Industrials, 83% of the Fortune 100, 87% of the DAX 30 and 48% of the FTSE 100.

More information on The Hackett Group is available: by phone at (770) 225-7300; by e-mail at info@thehackettgroup.com.

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