

THE **HIGH COST** OF **LOW PERFORMANCE** 2014



EXECUTIVE SUMMARY

For the past several years, PMI's *Pulse of the Profession* reports have emphasized the benefits of effective project, program and portfolio management. More recently, we have begun focusing on strategic initiative management to drive organization success through improved efficiency.

Though executives know what they should be doing – 88 percent say that strategy implementation is important to their organizations – sixty-one percent acknowledge that their firms often struggle to bridge the gap between strategy formulation and its day-to-day implementation.⁷ This gap demonstrates a lack of understanding among organization executives that all strategic change happens through projects and programs. While some projects improve an organization's ability to "run the business" and don't rise to the level of a "strategic initiative," all of an organization's strategic initiatives are projects or programs, which inevitably "change the business." Most in the C-suite fail to realize this simple truth. Maybe more would if they assigned a senior executive to oversee strategy implementation the same way many of them designate a Chief Strategy Officer (CSO) who has responsibility for strategy development. When that person is supported by an organization culture of project management, including a high performing PMO, that is when we will see project success rates climb.

This year's Pulse research reinforces these findings, and demonstrates the significant implications of this chasm:

- Very few organizations (9 percent) rate themselves as excellent on successfully executing initiatives to deliver strategic results. **Consequently, only 56 percent of strategic initiatives meet their original goals and business intent.**
- This poor performance results in organizations losing \$109 million for every \$1 billion invested in projects and programs.
- High-performing organizations successfully complete 89 percent of their projects, while low performers complete only 36 percent successfully. This difference in success results in high-performing organizations wasting nearly 12 times less than low performers.

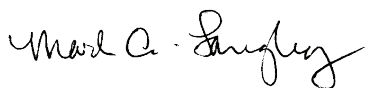
- Projects and programs that are aligned to an organization's strategy are completed successfully more often than projects that are misaligned (48 percent versus 71 percent). PMI's earlier research reported that aligning projects with strategic objectives has the greatest potential to add value to an organization.² But on average organizations report that three of five projects are not aligned to strategy.
- Organizations that are highly agile, nimble and able to respond quickly to changing market dynamics complete more of their strategic initiatives successfully than slower, less agile organizations (69 percent versus 45 percent). But only 15 percent of organizations report high organizational agility.

How can mature project management practices lead to a competitive advantage? What lessons can be learned from high performers that can be replicated across organizations of all types to improve their value?

Our research highlights key practices that maximize organizational value. By maturing project management capabilities, focusing on talent and change management, and insisting on a benefits realization review, high performers successfully complete more projects. They are more flexible and waste fewer dollars.

The following pages explore these findings in greater detail and provide a clear path forward for organizations to achieve success through optimized project management practices.

Let's do great things together.



Mark A. Langley
President and CEO
Project Management Institute

US\$109 million

The amount lost for every
US\$1 billion spent on projects

Figure 1: Organizations lose an average of US\$109 million for every US\$1 billion spent on projects.

Dollars lost is the product of the average percentage of projects not meeting goals multiplied by the average percentage of a project's budget that is lost if the project fails. Year-to-year variance is caused by changes seen in either, or both, of these two metrics.

In 2012, the Pulse research reported dollars lost for that year as US\$120M for every US\$1B spent on projects. In 2013, that amount was US\$135M for every US\$1B. This change was due to the increase in the percentage of projects not meeting goals since the previous year. The data indicates that this decrease in successful projects was driven by the declining focus on the training and development of project managers – one of the by-products of the recent global recession.

Our 2014 Pulse reports that US\$109M for every US\$1B is lost due to the decrease in the average percentage of a project's budget that is unrecoverable if the project fails. This decline is related to the shift in the roles of PMOs. Although the percentage of organizations with a PMO remains stable since last year, Pulse research shows a shift toward PMOs taking on a more strategic role in the organization. Practices such as establishing and monitoring success metrics and contributing to the development of core competencies and organizational project management maturity are seen as factors in a more efficient project management process, thereby resulting in less wasted effort.

THE WIDE CHASM

PMI's 2014 *Pulse of the Profession* research shows that organizations face a wide chasm between their actual state and the state of success, mostly due to a lack of focus on people, processes and outcomes. As a result, their projects, including those focused on an organization's highest priorities—strategic initiatives—are suffering, and organizations are losing an average of US\$109 million for every US\$1 billion spent on projects (Figure 1).

This financial loss impacts an organization's bottom line. As reported by the Economist Intelligence Unit last year in *Why Good Strategies Fail: Lessons for the C-Suite* sponsored by PMI³, senior executives recognize the importance of strategy implementation, but a majority of executives admit that their companies fall short and that there is a disconnect between strategy formulation and implementation. Ultimately, only a minority of respondents said that their business model is extremely well aligned with strategy and an average of just 56 percent of strategic initiatives have been successful in the past three years. Not surprisingly, companies that are poorly aligned with strategy also reported weaker financial results than their peers.

Our 2014 Pulse research reveals similar results: just 42 percent of organizations report having high alignment of projects to organizational strategy. Furthermore, only 32 percent of organizations report that their projects are *much better aligned* compared with those of one year ago.

These results are troubling, as many top consulting and thought leadership organizations, including IBM, PwC and McKinsey, have been touting for years that projects—as well as programs, portfolios and strategic initiatives—must be aligned to the strategy of the organization to achieve success. Remarkably, organizations that report high alignment of their projects to organizational strategy average 65 percent of their strategic initiatives meeting original goals and business intent, compared with only 35 percent due to low alignment.

This lack of alignment of projects to organizational strategy most likely contributes to the surprising result that nearly one half of strategic initiatives (44 percent) are reported as unsuccessful. This underwhelming rate of success was also reported in the aforementioned EIU study, which detailed the causes:

- C-suite executives are often missing in action.
- Rather than micromanaging, C-suite executives should identify and focus on the key initiatives and projects that are strategically relevant.
- A majority of companies either lack the skills or fail to deploy the personnel needed for strategy implementation.

This lack of alignment results in less organizational agility. No one would argue that the rate of change in today's market environment is ever increasing. As a result, organizations must become more agile to respond successfully to change. Organizational agility is the capability of an organization to maintain a competitive edge by responding faster to changing market conditions while improving organizational efficiency and customer satisfaction.⁴

Our 2014 Pulse research reveals that organizations with high alignment of projects to strategy of the organization are significantly more likely to be highly agile (23 percent versus 5 percent). Furthermore, organizations with high organizational agility report not only more successful projects, but also more successful strategic initiatives (69 percent compared with 45 percent among organizations with low organizational agility).

Despite this, only 15 percent report high levels of organizational agility, suggesting that organizations are not prepared to adapt to shifts in today's complex market environment and shifts in consumer demands and expectations.

The chasm caused by lack of agility and strategic alignment leaves organizations unable to take advantage of the moderate expected economic growth, to react to strategic shifts in customer expectations and demands, and to mitigate project dollars lost.

The bottom line is that a lack of organizational agility significantly diminishes the success of projects and strategic initiatives.

THE STRATEGIC ALIGNMENT IMPERATIVE

Organizations must focus on improving their agility and their strategic alignment. There is a clear imperative to take action now, due to:

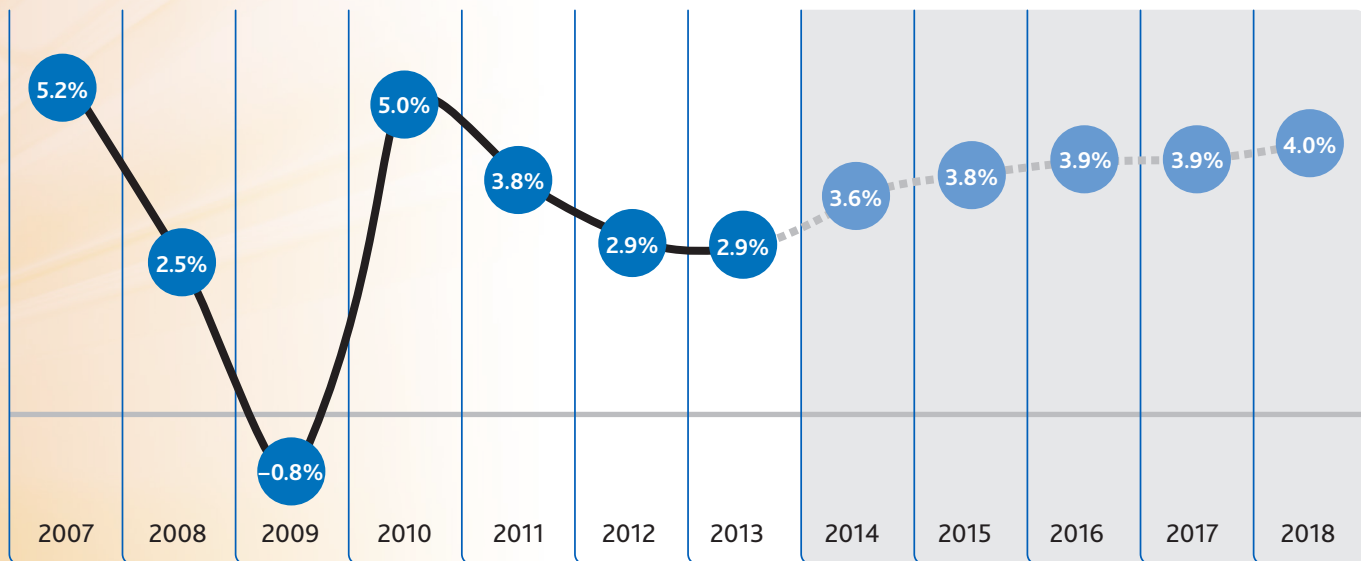
- Modest economic growth forecast; and
- Shifts in the customer landscape.

MODEST ECONOMIC GROWTH FORECAST

While global GDP growth has been sluggish for the past several years, there are signs of cautious optimism, and as a result, organizations should regroup and assess how they are performing—and how they can perform better.

In 2013, the global GDP grew a very modest 2.9 percent,⁵ but looking ahead, executives have a positive economic outlook overall: 47 percent expect their country's economy to improve in the next six months, and 55 percent say the same for the global economy, a clear improvement from years past.⁶ Additionally, the EIU forecasts the global economy to grow by 3.6 percent in 2014, the highest growth since 2011 (Figure 2).⁷

A Forecast of Modest Growth, but Growth Nonetheless



Source: EIU – December 2013
2014 – 2018 are forecasts

Figure 2: Economists forecast modest GDP growth.

This modest global GDP growth is evident in organizations re-starting projects that had previously been tabled. Specifically, PMI's Economic Snapshot Survey reveals that the percentage of organizations starting projects that were previously cancelled or delayed due to economic conditions increased significantly, from 14 percent in the fourth quarter of 2012 to 23 percent in the fourth quarter of 2013.

The global economy is on the brink of growth. These signs of optimism indicate that now is the time for organizations to regroup, assess and position themselves to take full advantage of the economic growth.

SHIFTS IN THE CUSTOMER LANDSCAPE

In 2013, as reported in *The Customer-Activated Enterprise: Insights from the Global C-suite Study*,⁸ IBM spoke to over 4,000 C-suite executives from around the world, and found that organizational leaders are changing the way they are shaping organizational strategy. A growing number of CEOs believe customer influence should not be confined to activities in which customers have traditionally participated, such as developing new products or services. Instead, CEOs stand ready to relinquish absolute control of what is typically considered their domain—developing business strategy.

In the coming year, the influence and impact of customers—and their role in shaping business strategy—are going to increase. Each of the shifts mentioned below are significant factors in how organizations will gain an advantage over their competitors, if the competition hasn't already started aligning to these anticipated changes.

■ A shift in addressing customer demands

Virginia M. Rometty, Chairman, President and Chief Executive Officer of IBM, recently stated that "... in 2004, CEOs ranked their own customers sixth on the list of all market factors they believed would drive the most change in their organizations. Today, digitally enfranchised and empowered customers lead the agenda for every CxO profession."⁹

■ A shift in shaping strategy

The same study also emphasized the role that customers will play in shaping business strategy:

- IBM's research reveals that in the next three to five years, a growing number of CEOs expect to include customers in every part of their business, and 40 percent more CEOs plan to include customers in their organization's business strategy development compared to today.

- Collaborating with customers extensively is a universal ambition: nine out of ten surveyed C-suite executives foresee doing so in the next three to five years, compared with only 46 percent doing so today.

These findings suggest that improved organizational agility is essential to effectively adapt to this shift in shaping strategy.

■ **A shift in customer expectations**

PwC's 16th Annual CEO Survey emphasizes the imperative to build a customer-centered organization. It states clearly that taking action now to make customers' perspectives the core of their strategy is crucial for growth and crucial for setting an organization apart from its competitors.¹⁰

This call to action and the new strategic initiatives that organizations formulate and execute as a result will become more and more visible to customers. And, in turn, customers will not only appreciate it but expect it.

In addition to the optimistic economic outlook and the shifts in customer landscape, the global market environment remains complex. As a result, organizations must consider a multitude of factors to stay competitive and improve their bottom line. Our research shows that focusing on the successful execution of strategic initiatives via projects and programs mitigates lost dollars and allows for effective responses to the forecasted shifts in today's complex environment.

DRIVING ORGANIZATIONAL SUCCESS

An organization's success is dependent on understanding high project performance—projects completed on time, on budget and meeting original goals. Our Pulse research shows that **high-performing¹¹ organizations are more likely than their low-performing¹² counterparts to focus on agility (Figure 3) and strategic alignment (Figure 4), thus minimizing the wide chasm that organizations face today.¹³** As a result, the increased success of their strategic initiatives is substantial; high performers average twice as many successful strategic initiatives than low-performing organizations (Figure 5).

An organization's focus on agility and strategic alignment not only impacts the success of its highest priority initiatives, it also leads to better project performance overall; 89 percent of projects at high-performing organizations meet original goals and business intent, compared with just 36 percent at low-performing organizations. And high-performing organizations lose 12 times less money than low performers (US\$20 million versus US\$230 million for every US\$1 billion spent on projects).

Understanding what practices—both strategic and tactical—high-performing organizations have in place is crucial to improving an organization's success. Along with high alignment of their projects to organizational strategy and organizational agility, high-performing organizations succeed through a strategic focus on **people, processes** and **outcomes**.

■ PEOPLE

Not only must organizations focus on the development of their talent and the practices by which they do that, they also need to focus on managing their people through rapid organizational changes that stem from new strategic initiatives. And further, organizations need to ensure executive sponsors are in place to help drive the organizational changes.

High-Performing Organizations are Three Times as Likely to have Organizational Agility

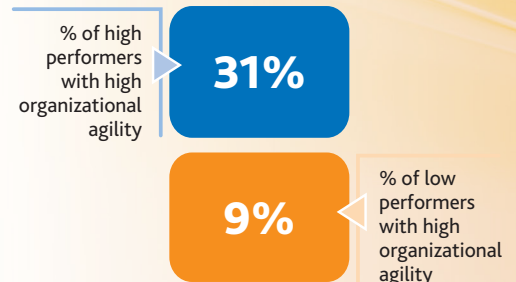


Figure 3

High-Performing Organizations are Twice as Likely to have High Alignment of Projects to Organizational Strategy

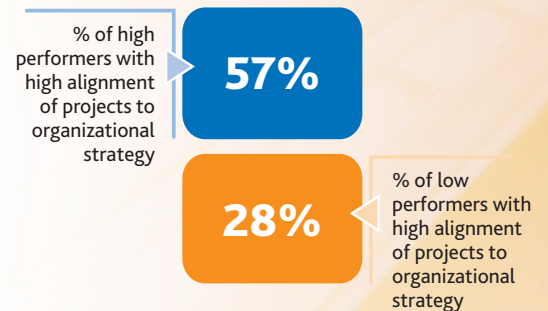


Figure 4

High-Performing Organizations have Twice as Many Successful Strategic Initiatives

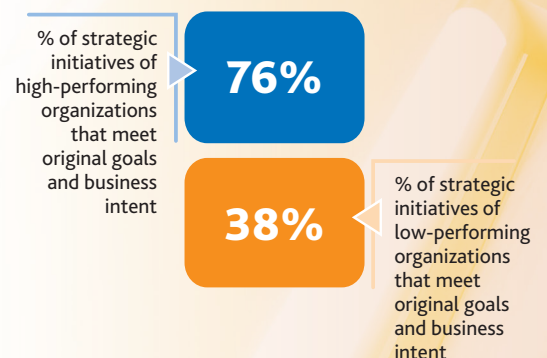


Figure 5

Talent Management

Our research shows that organizations need to focus on the development and training of their talent in order to achieve superior project performance, successful strategic initiatives and become high performers. Organizations are currently facing unique challenges: few organizations are focusing on knowledge transfer and this might be hampered by the fact that nearly two-thirds of organizations report using outsourced or contract project managers. Furthermore, 26 percent of organizations plan to increase the percentage of project managers who are contracted or outsourced in 2014, compared with just 20 percent in 2013.

However, there is a direct correlation between effective talent management and better project performance. PMI's *Pulse of the Profession In-Depth Report: The Competitive Advantage of Effective Talent Management*¹⁴ showed that organizations that align their talent management to strategy have more successful projects and waste fewer project dollars. Our research revealed that high-performing organizations are more than twice as likely as their low-performing counterparts to align talent management to organization strategy—a significant competitive advantage.

Figure 6 shows the talent management practices identified in the Pulse research that significantly more high-performing organizations have in place.

Talent Management

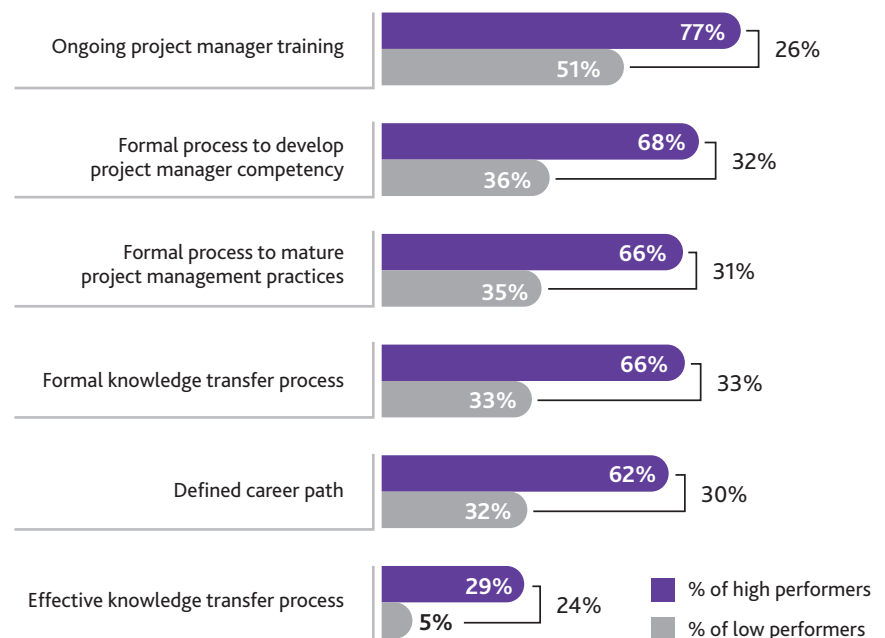


Figure 6: Effective talent management is more prevalent in high performers.

More importantly, when these practices are put in place, organizations report significantly more successful strategic initiatives (Figure 7).

Talent Management Leads to Success

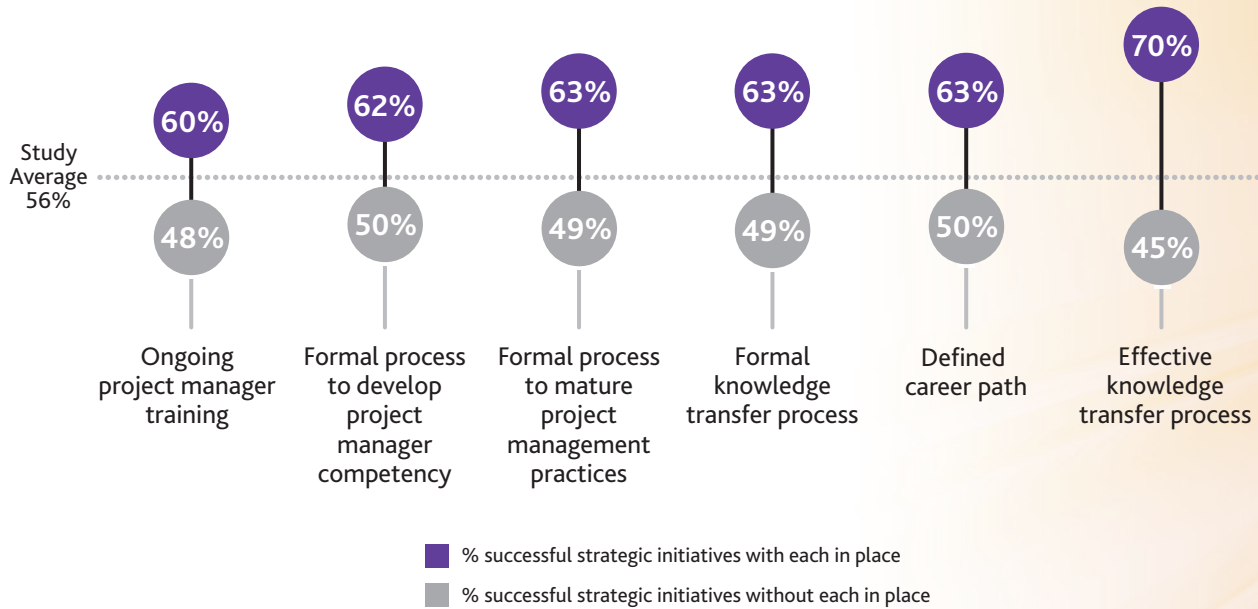


Figure 7: Effective talent management leads to more successful strategic initiatives.

Actively engaged sponsors is once again the top driver of project success.

Change Management

Our Pulse research shows that organizational change—accomplished through projects and programs—continues to be a challenge for the vast majority of organizations. Two out of five organizations (40 percent) report that their effectiveness at organizational change management is higher compared to a year ago. Despite this, only one in five organizations reports highly effective change management.

Our Pulse research reveals that organizations that are highly effective at change management are four times more likely to frequently use change management practices (94 percent compared with only 24 percent among organizations minimally effective). However, our trends show that the frequent use of change management practices has been declining over the past four years (71 percent in 2011 down to 65 percent in 2014).

Vital to effective organizational change is the executive sponsor—the person within the organization who champions change. PMI's *Managing Change in Organizations: A Practice Guide*¹⁵ outlines the importance of executive sponsors on projects and programs that drive organizational change. And our latest Pulse research confirms that **actively engaged sponsors is again the top driver of project success**. However, the average percentage of projects with active sponsors has remained flat: for the past three years, organizations report that less than two in three projects have actively engaged sponsors (Figure 8).

Projects with Active Project Sponsors

Despite being the top driver of project success, fewer than two in three projects have actively engaged sponsors.

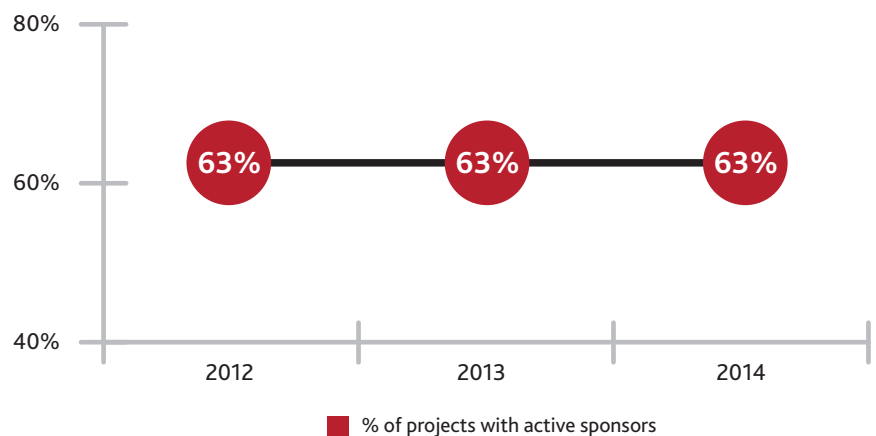


Figure 8: For the past three years, organizations report that fewer than two in three projects have actively engaged sponsors.

Our Pulse research shows that high-performing organizations are more effective at organizational change management compared with low-performing organizations. This is likely fueled by the significantly greater support received from executive sponsors at high-performing organizations (Figure 9).

Change Management

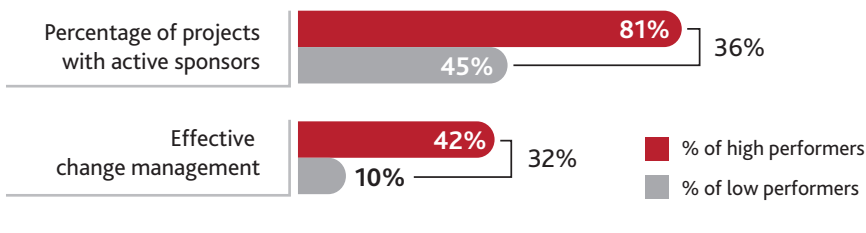


Figure 9: Effective change management is more prevalent in high performers.

And maturing these two practices has a great impact on the success of strategic initiatives (Figure 10).

Change Management Leads to Success

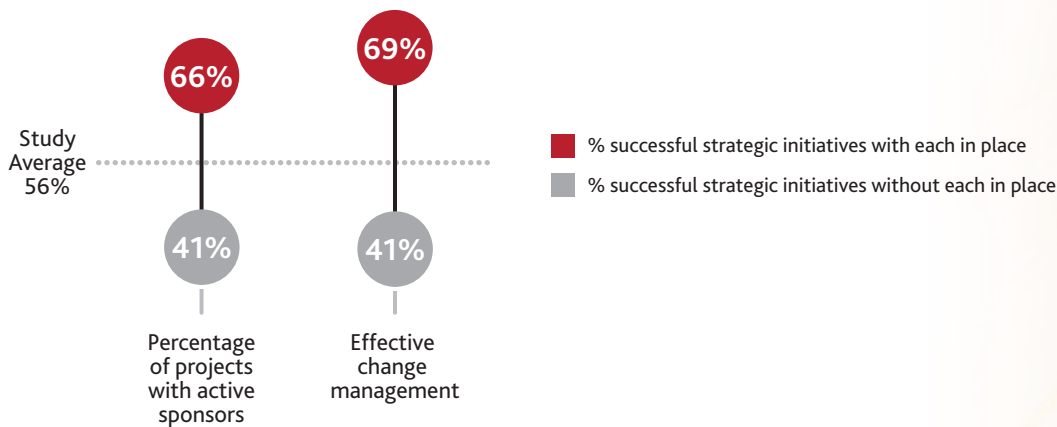


Figure 10: Effective change management leads to more successful strategic initiatives.

PMI will be exploring change management and its impact on organizations in an in-depth report releasing in March 2014.

■ PROCESSES

For the past several years, our Pulse research has confirmed that organizations can clearly benefit from maturing their project, program and portfolio management processes. The Pulse data demonstrates that process maturity leads to success. Despite this, our latest Pulse findings reveal that many organizations are not taking sufficient action to mature their processes—as evidenced by the trends in the perceived value of project management, the growth of project management offices (PMOs), the use of standardized project management practices throughout organizations, and the maturity levels of project, program and portfolio management.

- Similar to 2013,¹⁶ nearly one half (46 percent) of organizations report not fully understanding the value of project management. These organizations face a real risk to their success—significantly more strategic initiatives are successful when organizations fully understand the value of project management (63 percent versus 47 percent).
- The percentage of organizations that report having a PMO remains flat at 69 percent. Furthermore, there is a lack of growth in the presence of enterprise-wide PMOs: just one half (47 percent) of organizations report having an EPMO; this number was 46 percent in 2011. As shown in PMI's *Pulse of the Profession In Depth Report: The Impact of PMOs on Strategy Implementation*,¹⁷ high-performing PMOs drive value by creating an organizational culture of project management, continually evaluating PMO performance and evolving and improving through knowledge management and change management.
- As previously mentioned, the use of standardized project management practices throughout the organization is flat; today, only one-fourth of organizations report using these throughout the organization.
- In 2013, PMI's Pulse research revealed that project, program and portfolio management practices in many organizations are not yet mature, and this remains true today. Fewer than one in five organizations reports high maturity of project, program or portfolio management.

This failure to take the necessary actions to mature their processes results in less success. This is clear when comparing high-performing organizations with low-performing organizations. Along with the high maturity of project, program and portfolio management, high-performing organizations

are significantly more likely to fully understand the value of project management, have a PMO and use standardized practices throughout the organization (Figure 11).

Process Maturity

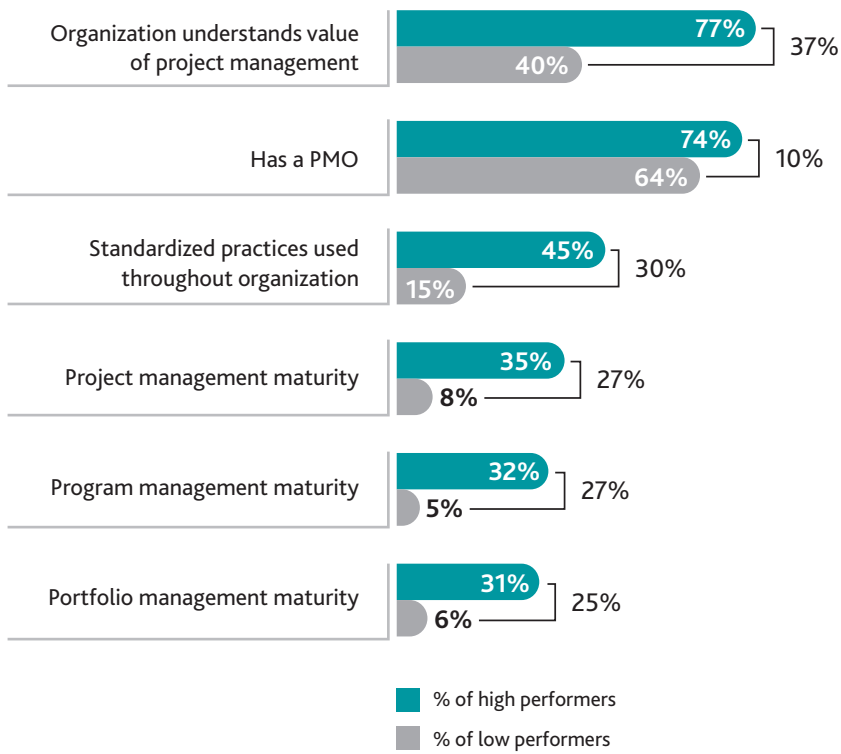


Figure 11: Process maturity is more prevalent in high-performing organizations.

Our Pulse research reveals that the benefits of process maturity are evident. Figure 12 shows the extent of the success of strategic initiatives from each of the practices; organizations realize significantly more successful strategic initiatives when these practices are in place.

Process Maturity Leads to Success



Figure 12: Process maturity leads to more successful strategic initiatives.

■ OUTCOMES

Successful organizations have a continued focus on the outcomes of the intended benefits of their projects and programs. Benefits realization is the practice of ensuring that the outcome of a project produces the projected benefits claimed in the business case. This is achieved through the establishment, measurement and communication of the expected benefits of an organization's initiatives.

High benefits realization maturity is inextricably linked to the success of projects—and strategic initiatives. Despite this, our latest Pulse research reveals that fewer than one in five (17 percent) organizations report high benefits realization maturity. High performers are nearly eight times more likely to be mature in their benefits realization processes (Figure 13).

Benefits Realization Maturity

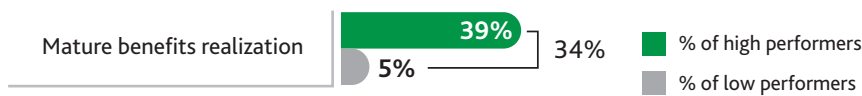


Figure 13: High benefits realization maturity is more prevalent in high-performing organizations.

The payoff for organizations maturing their benefits realization is worth the effort: organizations that report being highly mature with benefits realization see an average of 73 percent of their strategic initiatives meeting original goals and business intent (Figure 14).

Benefits Realization Maturity Leads to Success

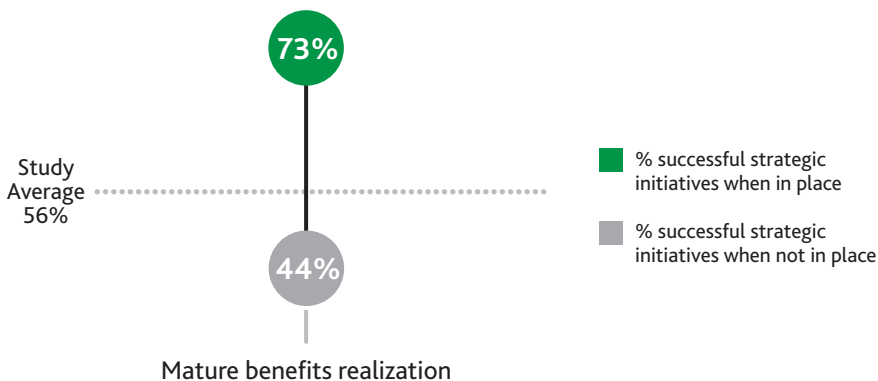


Figure 14: High benefits realization maturity leads to more successful strategic initiatives.

CONCLUSION

In the past few years, organizations have faced headwinds, resulting in a chasm between their actual state and their vision of success. High organizational agility and high alignment of projects and programs to an organization's strategy have become integral to navigating an increasingly competitive market environment. Strategies are being shaped by customer expectations and demands and by the modest global economic growth forecasted for 2014.

This 2014 *Pulse of the Profession* report reveals a clear imperative for organizations to take action now to become high performers and optimize their project management practices to mitigate the millions lost on failed projects.

Our research highlights three focus areas that, once developed and deployed, lead to increased success of both projects and strategic initiatives: people, processes and outcomes. Organizations that develop these competencies lose 12 times less money and mitigate the high cost of low performance.

ABOUT PMI'S PULSE OF THE PROFESSION

Conducted since 2006, *PMI's Pulse of the Profession* is the annual global survey of project management practitioners. 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 over 2,500 project management leaders and practitioners across North America; Asia Pacific; Europe, the Middle East, and Africa (EMEA); and Latin America and Caribbean regions.

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- 9 Ibid.
- 10 PwC. *10 Minutes on Building the Customer-Centered Organization, 16th Annual Global CEO Survey*. January 2013.
- 11 High performers are organizations that achieve 80 percent or more of projects on time, on budget and meeting original goals.
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