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The following case describes a firm struggling with its organizational structure as it expands its successful commercial business into the governmental contracts arena. This new source of business, however, requires extensive competence in project management, which is new to the firm. As the governmental business grows, the firm has continued to alter its organizational structure, but its performance and incentive systems also need to be changed now, and the impact of those changes on the commercial business is unclear.

Case

Acorn Industries² Harold R. Kerzner, PhD

Acorn Industries, prior to July of 1996, was a relatively small Midwestern corporation dealing with a single product line. The

company dealt solely with commercial contracts and rarely, if ever, considered submitting proposals for government contracts. The corporation at that time functioned under a traditional form of organizational structure, although it did possess a somewhat decentralized managerial philosophy within each division. In 1993, upper management decided that the direction of the

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company must change. The company initiated smaller firms were bought. The company believed would solidify future in their reputation and strong market companies would allow only within the area. The company did acknowledge their efforts—it is a firm of project management.

In July of 1996, a license contract after a and intensive competition. The company once again capabilities, combined with the contract. According to manager at Acorn Industries government contract was of the marketing division relied on three factors:

1. Know exactly what
2. Know exactly what
3. Know exactly what are going.

The contract awarded government contracts amounting to \$80 million anywhere from seven early 2009 before expansion growth, especially as they pertained to work in 1997 to change general an individual who had management and who project research and development.

Problems Facing the

The problems facing the prior to his arrival, the manufacturing organization was somewhat autonomous and under a Key Management prior general manager had to do what was required. Performance of goals. If a KMP program, each division year-end bonus. These benefits of the manager's base pay ability to exceed the planning within each division managers did not concern national growth other objective.

company must change. To compete with other manufacturers, the company initiated a strong acquisition program whereby smaller firms were bought out and brought into the organization. The company believed that an intensive acquisition program would solidify future growth and development. Furthermore, due to their reputation for possessing a superior technical product and strong marketing department, the acquisition of other companies would allow them to diversify into other fields, especially within the area of government contracts. However, the company did acknowledge one shortcoming that possibly could hurt their efforts—it had never fully adopted, nor implemented, any form of project management.

In July of 1996, the company was awarded a major defense contract after four years of research and development and intensive competition from a major defense organization. The company once again relied on their superior technological capabilities, combined with strong marketing efforts, to obtain the contract. According to Chris Banks, the current marketing manager at Acorn Industries, the successful proposal for the government contract was submitted solely through the efforts of the marketing division. Acorn's successful marketing strategy relied on three factors when submitting a proposal:

1. Know exactly what the funder wants.
2. Know exactly what the market will bear.
3. Know exactly what the competition is doing and where they are going.

The contract awarded in July 1996 led to subsequent government contracts and, in fact, eight more were awarded amounting to \$80 million each. These contracts were to last anywhere from seven to ten years, taking the company into early 2009 before expiration would occur. Due to their extensive growth, especially with the area of government contracts as they pertained to weapon systems, the company was forced in 1997 to change general managers. The company brought in an individual who had an extensive background in program management and who previously had been heavily involved in research and development.

Problems Facing the General Manager

The problems facing the new general manager were numerous. Prior to his arrival, the company was virtually a decentralized manufacturing organization. Each division within the company was somewhat autonomous, and the functional managers operated under a Key Management Incentive Program (KMIP). The prior general manager had left it up to each division manager to do what was required. Performance had been measured against attainment of goals. If the annual objective was met under the KMIP program, each division manager could expect to receive a year-end bonus. These bonuses were computed on a percentage of the manager's base pay, and were directly correlated to the ability to exceed the annual objective. Accordingly, future planning within each division was somewhat stagnant, and most managers did not concern themselves with any aspect of organizational growth other than what was required by the annual objective.

Because the company had previously dealt with a single product line and interacted solely with commercial contractors, little, if any, production planning had occurred. Interactions between research and development and the production engineering departments were virtually nonexistent. Research and Development was either way behind or way ahead of the other departments at any particular time. Due to the effects of the KMIP program, this aspect was likely to continue.

Change within the Organizational Structure

To compound the aforementioned problems, the general manager faced the unique task of changing corporate philosophy. Previously, corporate management was concerned with a single product with a short-term production cycle. Now, however, the corporation was faced with long-term governmental contracts, long cycles, and diversified products. Add to this the fact that the company was almost devoid of any individuals who had operated under any aspect of program management, and the tasks appeared insurmountable.

The prime motivating factor for the new general manager during the period from 1997 to 1999 was to retain profitability and maximize return on investment. In order to do this, the general manager decided to maintain the company's commercial product line, operating it at full capacity. This decision was made because the company was based in solid financial management and the commercial product line had been extremely profitable. According to the general manager, Ken Hawks,

The concept of keeping both commercial and government contracts separate was a necessity. The commercial product line was highly competitive and maintained a good market share. If the adventure into weaponry failed, the company could always fall back on the commercial products. At any rate, the company at this time could not solely rely on the success of government contracts, which were due to expire.

In 1996, Acorn reorganized its organizational structure and created a program management office under the direct auspices of the general manager (see Exhibit I).

Expansion and Growth

In late 1996, Acorn initiated a major expansion and reorganization within its various divisions. In fact, during the period between 1996 and 1997, the government contracts resulted in the acquiring of three new companies and possibly the acquisition of a fourth. As before, the expertise of the marketing department was heavily relied upon. Growth objectives for each division were set by corporate headquarters with the advice and feedback of the division managers. Up to 1996, Acorn's divisions had not had a program director. The program management functions for all divisions were performed by one program manager whose expertise was entirely within the commercial field. This particular program manager was concerned only

with profitability and did not closely interact with the various funders. According to Chris Banks,

The program manager's philosophy was to meet the minimum level of performance required by the contract. To attain this, he required only adequate performance. As Acorn began to become more involved with government contracts, the position remained that given a choice between high technology with low reliability, and vice-versa, the company would always select an acquisition with low technology and high reliability. If we remain somewhere in between, future government contracts should be assured.

At the same time, Acorn established a Chicago office headed by a group executive. The office was mainly for monitoring for government contracts. Concurrently, an office was established in Washington to monitor the trends within the Department of Defense and to further act as a lobbyist for government contracts. A position of director of marketing was established to interact with the program office on contract proposals. Prior to

1997, the marketing division had always been responsible for contract proposals. Acorn believed that marketing would always, as in the past, set the tone for the company. However, in 1997, and then again in 1998 (see Exhibits II and III), Acorn underwent further organizational changes. A full-time director of program management was appointed with further subdivisions of project managers responsible for the various government contracts. It was at this time that Acorn realized the necessity of involving the program manager more extensively in contract proposals. One faction within corporate management wanted to keep marketing responsible for contract proposals. Another decided that a combination between the marketing input and the expertise of the program director must be utilized. According to Chris Banks,

We began to realize that marketing no longer could exclude other factors within the organization when preparing contract proposals. As project management became a reality, we realized that the program manager must be included in all phases of contract proposals.

Prior to 1996, the marketing department controlled most aspects of contract proposals. With the establishment of the

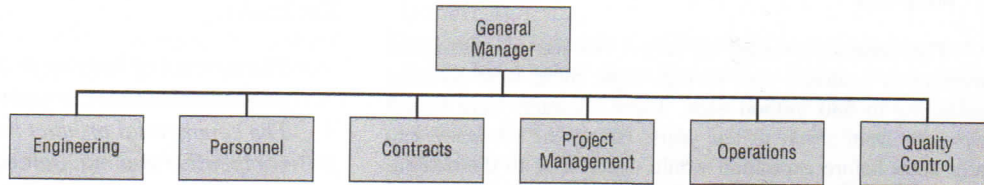


EXHIBIT I 1996 Organizational Structure

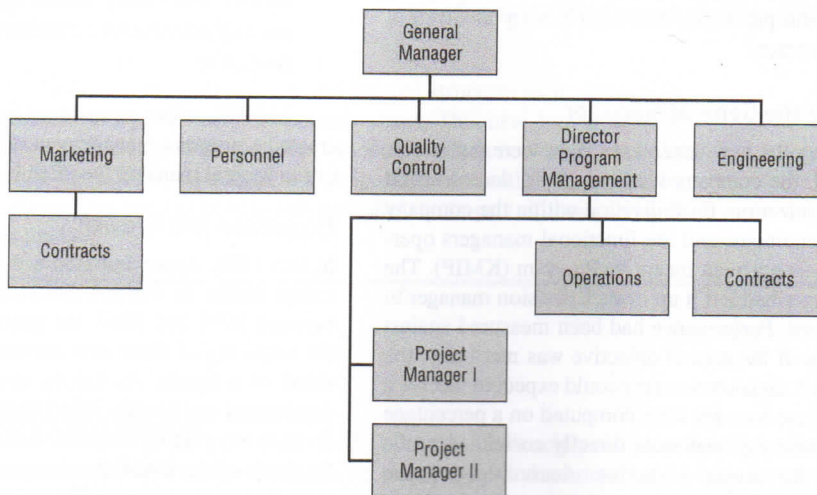


EXHIBIT II 1997 Organizational Structure

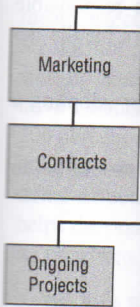


EXHIBIT III

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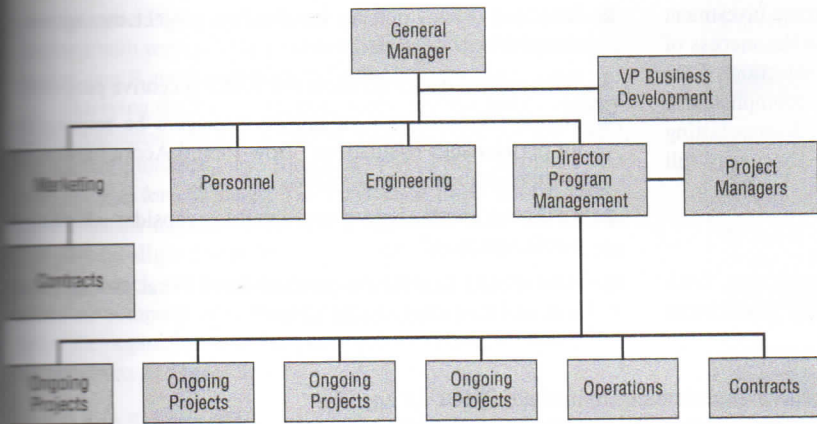


EXHIBIT III 1998 Organizational Structure (10/1/1998)

program office, interface between the marketing department and the program office began to increase.

Responsibilities of the Project Manager

In 1997, Acorn, for the first time, identified a director of program management. This individual reported directly to the general manager and had under his control:

1. The project managers
2. The operations group
3. The contracts group

Under this reorganization, the director of program management, along with the project managers, possessed greater responsibility relative to contract proposals. These new responsibilities included:

1. Research and development
2. Preparation of contract proposals
3. Interaction with marketing on submittal of proposals
4. Responsibility for all government contracts
 - a. Trade-off analysis
 - b. Cost analysis
5. Interface with engineering department to insure satisfaction of funder's desires

Due to the expansion of government contracts, Acorn was now faced with the problem of bringing in new talent to direct ongoing projects. The previous program manager had had considerable power over operations and maintained a singular philosophy. Under his tenure, many bright individuals left Acorn because future growth and career patterns were questionable. Now that the company is diversifying into other product lines, the need for young talent is crucial. Project management is still in the infancy stage.

Acorn's approach to selecting a project manager was dependent upon the size of the contract. If the particular contract was between \$2 and \$3 billion, the company would go with

the most experienced individual. Smaller contracts would be assigned to whoever was available.

Interaction with Functional Departments

Due to the relative newness of project management, little data was available to the company to fully assess whether operations were successful. The project managers were required to negotiate with the functional departments for talent. This aspect has presented some problems due to the long-term cycle of most government contracts. Young talent within the organization saw involvement with projects as an opportunity to move up within the organization. Functional managers, on the other hand, apparently did not want to let go of young talent and were extremely reluctant to lose any form of autonomy.

Performance of individuals assigned to projects was mutually discussed between the project manager and the functional manager. Problems arose, however, due to the length of projects. In some instances, if an individual had been assigned longer to the project manager than to the functional manager, the final evaluation of performance was submitted. In some instances, adequate performance was rated high in order to maintain an individual within the project scheme. According to some project managers, this aspect was a reality that must be faced, due to the shortage of abundant talent.

Current Status

In early 1998, Acorn began to realize that an orders shortage relative to government contracts would possibly occur in late 2001 or early 2003. Acorn initiated a three-pronged attack to fill the apparent void:

1. Do what you do best.
2. Look for similar product lines.
3. Look for products that do not require extensive R&D.

To facilitate these objectives, each division within the corporation established its own separate marketing department. The prime objective was to seek more federal funds through successful

contract proposals and utilize these funds to increase investment into R&D. The company had finally realized that the success of the corporation was primarily attributed to the selection of the proper general manager. However, this had been accomplished at the exclusion of proper control over R&D efforts. A more lasting problem still existed, however. Program management was still less developed than in most other corporations.

Questions

1. How should Acorn organize now, considering both their commercial business and their growing government business?

2. How can Acorn quickly increase its project management maturity?
3. What should Acorn do about the KMIP incentive program?
4. Should the functional or project managers be responsible for performance evaluations? How should Acorn handle the positive evaluation bias by PMs?
5. As Acorn continues to grow, should it consider adopting a matrix structure?
6. How should Ken Hawks proceed now? What should he do first, and then what should follow?

The following reading responds to the current trend in organizations to institute PMOs for any of a variety of reasons. Without careful planning and clear direction, the viability of every PMO can be in jeopardy, and, once having failed, will probably never be reconsidered. Although the insights are presented in a chronological order, all four of the recommendations should be followed constantly, whether a new PMO or one with a long history of successes.

Reading

Four Steps To A Stronger PMO³ S. F. Gale

Project management offices (PMOs) completed an average of US\$100 million worth of projects in 2012 and delivered roughly US\$71 million in value in increased revenue and cost reductions. Yet only one-third of PMOs say they've realized their full potential in contributing business value to their organization, according to PMI's *Pulse of the Profession™ In-Depth Report: The Impact of PMOs on Strategy Implementation*.

Time may be one factor in a PMO's power: Established PMOs deliver projects with higher quality and greater business success, according to a PwC survey. The longer these PMOs are around, the stronger they become—and the more successful the projects under their umbrellas. PMOs in place for six years or more report that 62 percent of projects achieve the intended business benefit and 74 percent of projects are deemed high-quality, the PwC survey says.

Yet tapping a PMO's full potential takes far more than simply throwing open the doors and waiting.

"A successful PMO needs to deliver business value, not only to be respected but also to show its worth," says Claudio Barbosa Rodrigues, PMP, PMO manager for SAP implementation at mining company Vale, Rio de Janeiro, Brazil. To demonstrate that value, consider this step-by-step guide to strengthening the power of a PMO.

1. Hone the Mission

It sounds so easy, yet it's easy to overlook: A PMO without purpose is more likely to flounder than flourish. "The main

purpose of a PMO isn't just to provide reports. The main goal is to be the strategic driver of company goals, to deliver business value," says Mr. Barbosa Rodrigues.

Whether building or revamping a PMO, "first, do an audit of everything going on," says Tara McLaren, head of the PMO for markets and international banking at the Royal Bank of Scotland, a PMO Global Executive Council member, London, England. In the Pulse in-depth report, 51 percent of respondents agreed that aligning projects with strategic objectives has the greatest potential for adding value to organizational activities.

To assess that alignment, the PMO staff should start with a detailed audit of everything going on. Review the current portfolio, also taking an inventory of each project's progress, earned value, obstacles and the anticipated ROI.

Armed with this inventory, the PMO leaders should meet with members of the executive team to report the findings and discuss how the organization's goals should shape the PMO's purpose moving forward. If the strategic goals are to increase revenues or cut division costs, for instance, any revisions to the PMO charter will be very different than if the organization is focused on consolidating systems, expanding into new markets or improving quality outcomes, says Ms. McLaren.

"Once you know what the business wants to achieve next, you can show the executive team how the PMO can help do it."

Last June, the executive team at the Royal Bank of Scotland set a goal of cutting the IT budget in half while still delivering the same number of quality projects. Ms. McLaren responded by creating a project business case for moving all of the globally dispersed non-customer-facing IT team members to the bank's IT center in India. She showed the executive team different project scenarios, identified near-term opportunities to cut costs over the next six months and made a long-term plan for hitting the new budget targets.

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