Exploring Level 4 of the Program Portfolio Management Maturity Model

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Level 4 of the Program Portfolio Management Maturity Model focuses on full integration of PPM at the enterprise level. Entire organizations become "project capable." This is a critical factor, because organizations that move to Level 4 are generally driven into it by demanding business conditions requiring extreme agility and responsiveness, or by a demanding leader.

Key Findings

- A hallmark of Level 4 is the formation of a centralized or federated structure — usually called the "project capability office" — that provides methods, tools, templates, training and mentoring — for the enterprise.

- Another hallmark of Level 4 is the active support of senior executives and the active engagement of sponsors.

- Technologically, organizations become more savvy about using Enterprise 2.0 tools, with a heavy emphasis on capturing and reusing knowledge. Other areas gaining technological support include workflow, decision support and scenario planning.

- Financial management makes significant leaps at Level 4, with reliable information positively impacting portfolio planning and enabling result tracking to determine the actual value created by projects and programs.

Recommendations

- Be mindful of the interrelationships and interdependencies among people, PPM practices and processes, technology, and financial management. Their balanced evolution is critical to successfully achieving Level 4.

- Work to improve metrics for evaluating potential projects, focusing on what core business capability the change (that is, potential project) will engender (that is, implications on the business as a whole), rather than just on software or process change.

- Pay particular attention to communication and collaboration. While a dedicated communication function in large organizations is often called for, instilling a culture that promotes collaboration and communication is of equal or greater importance.

- Increase collaboration and integration with related disciplines (for example, strategy and planning, enterprise architecture, and procurement) to drive synergy, efficiency and consistency.

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Introduction

There is growing interest in building an effective approach to portfolio management and the supporting disciplines of PPM. To do this, every organization needs to:

- Objectively assess the maturity of its current practices.

- Determine the maturity level required to meet its future needs.

- Begin moving forward in a logical sequence that allows for incremental improvement.

If organizations attempt to push such changes too fast or too far, they often encounter cultural conflicts and wholesale rejection by all the concerned parties. The PPM Maturity Model is intended to help senior management avoid such problems by providing a framework that can facilitate communication with executive management — offering a way to compare their organizations' PPM processes and attributes to those in the Gartner model. This can help focus attention on areas where the greatest improvement is needed.

Gartner's PPM Maturity Model has five levels, moving from the least mature Level 1 (reactive) to the rarely achieved Level 5 (effective innovation). This research concentrates on Level 4, and details the characteristics of this effective integration stage to help PPM leaders determine:

- Whether they want to move up to this level, and if so, how to approach it

- Whether they want to stay at this level and just improve any dimensions that need more focus

Figure 1. Five Progressive Levels of the PPM Maturity Model
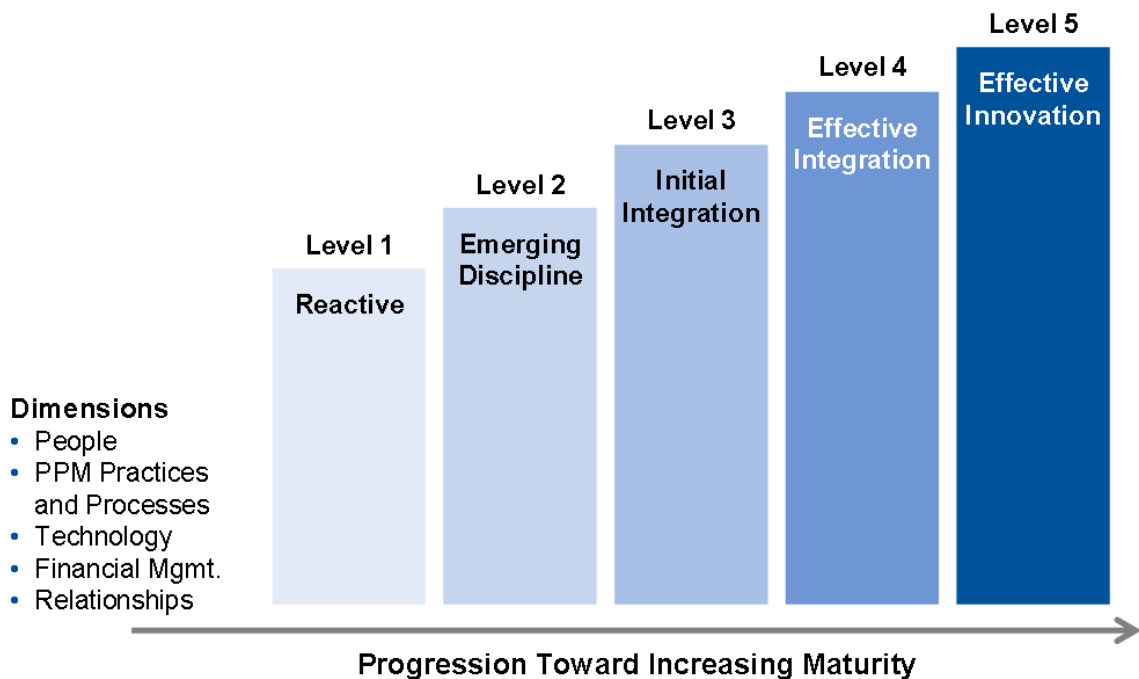
Source: Gartner (November 2010)

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Overview of Level 4 — Effective Integration

One of the most-significant changes to the PPM Maturity Model in the past three years has been the acknowledgment and inclusion of an understanding that linear progression stops at Level 3. Hard work and more process alone will not get an organization to Level 4. At Level 4, the enterprise begins to focus on being project-capable, not because of some belief that project management processes are a "silver bullet" for all organizational problems, but because there is a shift in the organizational mind-set toward the realization that the most effective way to accomplish anything new is through the mechanism of setting up a project or program. Senior executives become actively supportive and program/project sponsors become actively engaged. Additionally, the work that was started on portfolio management at Level 3 ratchets up a notch, and it's now possible to begin to talk about real strategy execution.

In line with this new integration, a network of PPM leaders exists companywide. Centers of competency (most of them virtual — see Note 1) help improve workload management, and capacity planning is in place and operating. Practices such as Six Sigma and lean in the process area help shift the focus from the internal organizational workings to a more-customer-centric perspective. The portfolio is modeled and appropriately optimized, factoring in risk. Benefit realization is being tracked. Because program management skills are being developed internally, most program managers are usually being chosen from internal candidates, rather than from among outside consultants.

Five Core Dimensions

Characteristics that define each level are manifested in five dimensions, each of which is unique to a role or a process. These five core dimensions are:

1. **People.** People are the most-critical part of any project or program-centric endeavor. The interdependency among people in terms of their availability, skills, contribution to the work and career aspirations are of critical importance. At higher levels of maturity, the leadership ability of the individuals involved in supporting PPM activities becomes critical.

2. **PPM practices and processes.** PPM processes comprise activities such as portfolio management and program management, as well as classic project management processes, such as risk and resource management. One of the most-common practices is the establishment of a "PMO" function, be it a project management office, program management office or portfolio management office.

3. **Technology.** The requirements for technology evolve as the various PPM processes change as they move through the levels of maturity. Additionally, PPM processes often require a unique set of tools to adequately fulfill their business functions. Everything from collaboration tools to project accounting systems will generally be required at some point on the journey upward toward high levels of maturity.

4. **Financial management.** Financial systems that might be adequate when projects are paid for as part of a lump sum in the budget (a common Level 1 practice) become completely inadequate when forced to support a more-detailed look at multiple projects and programs. Effective financial management requires chargeback or allocation systems, as well as new mechanisms for tracking value.

5. **Relationships.** Organizations must identify the touchpoints necessary to maintain the processes outlined above. This includes identifying who needs to be informed, who needs to be consulted and whose help is mandatory to ensure that the desired processes work effectively.

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Overall PPM maturity, PPM maturity within each core dimension and the corresponding maturity levels generally do not evolve or advance evenly. Some dimensions progress ahead of others (for example, Level 4 PPM practices and processes may exist before Level 4 technology to allow the selection and implementation of the appropriate technology to proven processes). Level 4, however, is truly about effective integration. As such, the relationships between the previously mentioned dimensions must be evolved or matured carefully and in concert.

Table 1. At a Glance: Characteristics of Level 4

	Level 4: Effective Integration
People	**Project:** A network of PPM leaders is emerging. Companywide centers of excellence improve workload management. Project assignments are made based on the specific skills and capabilities of the individual. **Program:** The role of the program manager exists internally. **Portfolio:** The role of the portfolio manager exists internally. Senior leaders and key stakeholders actively participate in the governance and management of the portfolio through formal structures.
PPM Practices and Processes	**Project:** Related projects are managed as programs. The portfolio is actively maintained. Multiple methods exist and are used by all project managers (PMs). **Program:** Increased use of program management methods, often with multiple program management methods available for various scenarios or profiles. **Portfolio:** Increases sophistication in portfolio practices (for example, modeling and portfolio triggers).
Technology	**Project:** A single PPM repository of reporting data is available for the enterprise in order to support a project-capable organization. **Program:** Technology supports programs, with the ability to enable underlying projects as well. **Portfolio:** Technology supports portfolio modeling.
Financial Management	**Project:** Project budgets are meaningful, and such techniques as monthly estimates to complete are beginning to be common. **Program:** Programs operate in much the same manner as operating divisions having the right to adjust their funding between projects without exceeding their stated budgets. **Portfolio:** The portfolio is modeled and appropriately optimized, factoring in risk. Benefit realization is tracked. Greater reliability in the portfolio is driven by greater reliability in its underlying projects, programs and supporting processes.
Relationships	**Project:** The organization has adopted a project-centered view that supports enterprisewide teams, promoting collaboration and sharing. No more "us vs. them." **Program:** Program management is an enabler to enterprisewide teams. **Portfolio:** Synergy develops between the portfolio and the stakeholders involved with its management as it becomes a tool for success, as opposed to a system to go around.

Source: Gartner (November 2010)

People at Level 4

PPM becomes a core capability of the enterprise at this level, and a network of PPM leaders begins to emerge throughout the enterprise. Project assignments are based on an assessment of

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the degree to which the actual skills and experiences of the individual match the needs of the project.

Program management assignments are considered a proving ground for promotion to line-management jobs in operations. The role is well-respected and sought after.

Large organizations improve resource management effectiveness by organizing staff into "virtual" or actual centers of competency, better enabling capacity planning. A center of competency ensures that technical staff has an opportunity for learning and career development, while a project manager is directly responsible for the day-to-day work being performed.

Adoption of performance-based competencies becomes increasingly common as a way to provide evidence of skill mastery and recognition and reward. Training plans are developed for the individual, not just for the group. Training plans are also linked to career development. Additionally, a formal mentoring program is in place for all project managers and program assignments.

PPM Practices and Processes at Level 4

At Level 4, PPM processes tend to be standardized, often at the enterprise level. A hallmark of Level 4 is the formation of a centralized or federated organization that provides methods, tools, templates, training and mentoring. While the organizational name will vary, we generally refer to it as the "project capability office." An enterprise PMO might also be established to ensure that planned programs deliver not just value, but actual and measurable progress toward achieving strategic goals.

Level 4 in our model also sees the end of the focus on "consistent" process, and the investment in compliance auditing gives way to performance auditing. At Level 4, PMs are assumed to be competent and capable of doing the right things as required by their individual projects or programs. If not, then the appropriate corrective action will be taken. While a project audit or health check function is in place to ensure that all projects are reviewed at appropriate checkpoints (such as phase gates), these are not documentation/process compliance audits, nor are they perceived as the "project police." Use of independent verification and validation becomes common to combat cognitive biases.

A project, program and portfolio organizational structure is in place, with documented roles, responsibilities and staff performance criteria. Criteria for evaluating success at each milestone have been established. Value and risk are measured and managed prior to, during and after the completion of projects.

Risk is continuously evaluated at the portfolio level to ensure that the aggregation of projects does not introduce a level of risk that is not found on a single-project basis. While traditionally 10% to 30% of projects are high risk/high return, at Level 4 the percentage is consciously chosen to enable competitive advantage.[1]

The organization is comfortable that these projects may need to be managed by their own unique rules — for example, as a "skunkworks" project managed outside the traditional guidelines.

The requirement to have multiple portfolios (new project, enterprise change and software assets/application, and new product development) is well understood and managed.

Technology at Level 4

At this point, the organization generally adopts a PPM platform for the enterprise. Regardless, the need for a legitimate source of record to support integrated enterprise reporting drives the need

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for a physical or virtual repository, be it a single PPM platform, a data warehouse or an operational data store.

Organizations need to become much more technologically savvy about how to use Enterprise 2.0 tools (see Note 2). The focus is generally on capturing and reusing knowledge that is directly tied to one of more individuals in the organization. Blogs, wikis and social network analysis all are key components that should become part of the required technology toolkit for PPM at this level.

Another technology that becomes common somewhere between Level 3 and Level 4 is workflow. In some cases, this becomes possible because processes have stabilized enough to automate. In other cases, the workflow tool has become flexible enough to justify using it in situations where processes change frequently.

Additionally, decision support tools for the portfolio should be considered to aid in modeling. The tools that are appropriate depend on the nature of the portfolio itself. Scenario planning capabilities might be a better fit for most organizations than techniques such as efficient frontier (which depends on a level of certainty at the initial stages of a project that most organizations don't have).

Financial Management at Level 4

The portfolio is analyzed against a variety of variables to better understand value and risk, and to help improve the investment decision-making process, with the portfolio perspective carrying heavier weight than the initiative perspective. Portfolio investment categories are established, and risk is factored in when modeling the portfolio. High-risk projects are automatically allowed different funding patterns. Projects are canceled when appropriate. Full project accounting is available with all costs related to a project captured.

Project and program results are regularly tracked — even after completion — to determine how much value was actually created. Project and program budgets consciously and transparently include funds for risk mitigation and contingency.

Rolling wave spending (that is, budgets approved by project milestone) has been accepted as a sound principle.

Relationships at Level 4

At Level 4, a true partnership exists between various stakeholders (such as business and IT). A recognition that "we are all on the same team" permeates the enterprise.

The change management of any project or program at Level 4 is considered of primary importance. Inclusion of funding to support reinforcement and acceptance of the changes engendered by a project or program once the program is completed is encouraged.

There is a formal approach to identifying the impact of various stakeholders on project and program (often using organizational network analysis), and a tailored plan to enlist supporters and deal with naysayers is developed.

Programs at Level 4 are often multiyear and cross-functional. With such large programs, a dedicated communication function becomes critical. Since so many people are affected, outreach functions need to be proactive.

The relationship of the PMO to the governance board at this level is highly sensitive to the market conditions surrounding the organization. Generally, the emphasis is on creating a "project-capable organization" where projects can be done anywhere in the organization. The enterprise PMO (EPMO) may still be overseeing the majority of the programs, but the goal of effective

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management of projects is generally realized now. The work all gets done at this level, and it gets done well, but there are still some lingering questions as to whether or not it's really the best choice for the money.

Improvement Opportunities and Considerations at Level 4

- At Level 4, the focus shifts to creating an environment that consistently delivers effective change. Development of excellent program and project managers within the organization is a critical success factor. The best way to accomplish this is through the creation of a project capability center.

- One element that becomes possible at Level 4 because of the effective integration is a set of improved and reliable metrics for evaluating potential projects. The focus is not on software or even on business process changes — rather, the focus is on what core capability the change will engender and how that change will lead to the realization of strategic objectives.

- The understanding of what change management means must shift. Change management is no longer considered solely a top-down, CEO-initiated activity. At Level 4, it is tied to projects and programs, and a thorough understanding of what it will take to get to the desired future state. This understanding is, therefore, incorporated in every project and program, and becomes a core competency of PPM leaders.

- Communication and collaboration become critical competencies at this stage.

Moving Up to Level 5

Should an organization aspire to Level 5? The question might better be asked, "Should peak performance be the goal?" For some enterprises, any other goal would be anathema to their corporate DNA. For others, the answer would be "a solid Level 3 is good enough."

Level 5 can only be reached based on the desires and capabilities of the senior management team. It is the confluence of the right team at the right time in the right "market." The steps necessary to get to Level 4 have been mastered, and it becomes possible to develop strategy and initiative projects and programs quickly and effectively to achieve the results desired. This organization is risk-tolerant and is designed to "fail forward fast" in order to be assured of reaching the pinnacle of the "fitness landscape." At Level 5, the primary driver truly is effective innovation, which starts to move the entire organization toward adopting the model of the ambidextrous organization (a bicameral model that holds that the secret of top performance is the dynamic tension between explore/innovation and exploit/production; see Note 3).

Table 2 provides a quick look at maturity characteristics of Level 5 organizations. For more detailed information, see "Exploring Level 5 of the Program Portfolio Management Maturity Model."

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Table 2. Moving Up — PPM Maturity Model Level 5 at a Glance

	Level 5: Effective Innovation
People	**Project:** Project managers exist throughout the organization, and project management is considered a core capability designed to support individuals managing projects in their particular area of competency. Self-selection and self-direction are encouraged as enabling behaviors. Periodic training is expected. **Program:** Programs are considered the primary way to execute strategy and make change, and program management experience is considered a key element of career development on the way to senior management positions. Innovation and out-of-the-box thinking are encouraged in the program management role. **Portfolio:** Portfolio managers exist within the organization and support optimal results. Portfolio managers support innovation and ideation.
PPM Practices and Processes	**Project:** Practical, low overhead approaches to project management have been adopted toward project management to make it accessible to the entire company. **Program:** Common program management processes and methods evolve in a cycle of continuous improvement, with rapid dissemination of these processes and methods throughout the program management community. While best practices are applied to familiar programs, adaptive approaches exist for less structured programs, with program managers knowing which to apply and when. More sophisticated analytical approaches (e.g., agent-based modeling, simulation) are available and applied when appropriate. **Portfolio:** Portfolios exist for all project work throughout the enterprise, harmonized by a consistent enterprise approach to portfolio management. The EPMO oversees strategy execution. One or more innovation or discovery portfolios exist, replete with supporting processes for innovation, ideation, investment management and dissemination. Sophisticated practices such as simulation and agent-based modeling are used when appropriate.
Technology	**Project:** Technology supports a robust knowledge management system, and resource management is enabled for ALL project resources. Collaboration technologies support communities that may allow external input. Agent-based modeling, simulation and predictive technologies are available to projects. **Program:** Ideation, open innovation platforms, agent-based modeling and simulation technologies are available to programs. **Portfolio:** Open innovation platforms contribute to the portfolio. Ideation technology exists. Predictive markets provide insight into portfolio decisions. Agent-based modeling and simulation technologies are applied at the portfolio level.
Financial Management	**Project:** Full life cycle costs and benefits are tracked with feedback to improve financial management. Creative financial management methods exist to support creative projects where estimated costs, schedule and benefits are a poor determinant of success. **Program:** Full life cycle costs and benefits are tracked with feedback to improve financial management. Programs have dedicated financial management staff. Creative financial management methods exist to support creative programs where estimated costs, schedule and benefits are a poor determinant of success. **Portfolio:** Portfolio resources are consciously allocated toward innovation and exploration. Portfolio liquidity is high, with the ability to shift resources, investment allocations and strategies to respond to market conditions or opportunities.

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	Level 5: Effective Innovation
Relationships	**Project:** Social responsibility aspects are considered, along with the impact to the organization itself. Superb communication skills are considered a core competency of project managers. Team diversity is managed to deliver optimal results. Project communities are common.
	Program: Social responsibility aspects are considered, along with the impact to the organization itself. Superb communication skills are considered a core competency of program managers. Team diversity is managed to deliver optimal results. Program communities are common.
	Portfolio: Social responsibility aspects are considered, along with the impact to the organization itself. Dynamic tension of explore/exploit is accepted. Social network analysis is openly applied to portfolio optimization.

Source: Gartner (November 2010)

RECOMMENDED READING

Some documents may not be available as part of your current Gartner subscription.

"The Enterprise PMO: An Emerging Force in Strategy Realization"

"The PMO IT 'Control Tower': Filing a Flight Plan"

Evidence

[1] In "IT Key Metrics Data 2010: Key Applications Measures: Project Measures," the range of "transform" projects in Figure 1 is between 12% for pharmaceuticals and 33% for insurance; however, this is common practice, not best practice. Practitioners of best practices consciously decide how much risk and reward to embrace.

- Continuous observation of PPM practices gained through more than 2,000 inquiries conducted by the PPM research team during the past 24 months

- Data gathered from the client interactions and experiences of more than 10 other analysts, consultants and associates in a cross-functional research community dedicated to PPM

- 300 PPM maturity assessments undertaken by user organizations since the original PPM maturity model was made available in December 2008

Note 1
Virtual Centers of Competency

For years, pundits and gurus of the PMO have forecast that the end state would be very large organizations with huge staffs dedicated to projects, and many of our clients have started down that path at Level 3. What we found from observing these clients is that the organizations rarely survived. Four hundred people dedicated permanently to temporary work (which is what a project is) simply seemed to be unpalatable in the long term, leading to the need to create virtual labor pools that can be tapped only when and if they are needed.

Note 2
Enterprise 2.0 Tools

The toolsets that connect to the platform can vary based on the needs of the business unit. It's the reporting layer that needs to be consistent to support better decision making, and it's the

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collaboration layer that needs to be consistent to support increased innovation. Everything else can be tailored to the needs of the individual groups as appropriate.

Note 3

"Ambidextrous Organization" by Michael L. Tushman, Charles A. O'Reilly, Harvard Business Review, 1 April 2004

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