

Project Portfolio Management

and

The Organizational Project Management Maturity Model

Over the past several years, an increasing number of project management practitioners have begun to talk about project portfolio management. Some people borrow principles from financial management. Others simply reuse catch phrases like “managing projects as a portfolio of real options,” without really understanding what this means or how to do it. Few approach the subject systematically, and fewer understand how to develop incrementally the capabilities that underpin best practices in project portfolio management. The fact, however, is that project portfolio management is not a poorly defined concept. It is based on tried and true management techniques. Organizations can learn and implement straightforward practices that help them to realize the value of their project investments and achieve their strategic goals. The key to success is to start small and build on incremental changes to the way your organization works.

In December of 2003, the Project Management Institute will publish the widely anticipated Organizational Project Management Maturity Model (OPM3), which has been under development since mid-1998. OPM3 was essentially a research project that involved analysis of nearly 30 existing maturity models and surveys of over 30,000 project management practitioners. Over 700 volunteers have helped to develop the model. Project portfolio management was researched, studied, and integrated into the OPM3. According to the PMBOK® Guide, (p. 10), "Project portfolio management refers to the selection and support of projects or program investments. These investments in projects and programs are guided by the organization's strategic plan and available resources." PMI has defined organizational project management as the application of knowledge, skills, tools, and techniques to organizational and project activities to achieve the aims of an organization through projects. Organizational project management, then, integrates project, program, and portfolio management.

I had the privilege of leading the OPM3 effort until the final phase (i.e. book production), which is underway now and estimated to complete in December 2003. After resigning my position as the director of the OPM3 program, I launched a new firm (OPM Experts, LLC), focusing on the practical implementation of organizational project management and the ways organizations can orchestrate change to achieve maturity using practical tools. I have seen a renewed interest among my clients in project portfolio management. One client is focused on improving project management in business units on different continents with separate PMO's while improving portfolio management decisions that are driven from a separate geographical location at the corporate office through a Global PMO. It is exciting to see the difference between theory and practice, and to learn firsthand what works and what does not. Faced with the complexity of real organizations, we find it much easier to implement best practices like “project portfolio management” if we decompose them into a series of steps, and manage those steps as an organizational change project. This approach is similar to the strategy one would use to implement the OPM3 once it is released later this year.

During my tenure as a volunteer for OPM3, I recommended several best practices for project portfolio management which were received by the OPM3 team and integrated into a draft of the model. It remains to be seen whether these and other best practices will be approved as part of the final standard. The information in this article reflects only my “unofficial” point of view with example best practices and capabilities which I penned myself for PMI, and which may or may not be adopted in the final standard that will be released in December 2003.

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A few of the project portfolio management best practices that I proposed to PMI for the OPM3 include:

1. Ensuring the right number of projects for limited resources.

2. Maximizing the value of the portfolio.
3. Managing risks to cash-flow that could prevent good investments in projects.
4. Determining the appropriate balance of projects within the portfolio.
5. Ensuring projects of the portfolio are aligned to strategies.

I suggested that dependencies exist among these best practices. Best practice 1 depends on 2, which depends on 3 and 4, while 4 depends on 5. A dependency between two best practices actually means that a dependency exists between one of the capabilities necessary for one best practice and one of the capabilities necessary for the other best practice. It is extremely useful to understand the dependencies between small steps (to implement each capability) when orchestrating organizational changes that will produce significant gains.

Like all best practices in the OPM3, each best practice is comprised of a series of capabilities that are achieved incrementally to produce each best practice in time. For example, consider the best practice "Maximizing the value of the portfolio." I proposed several capabilities that build up to this best practice. The capabilities are:

1. Ability to select projects and make project continuation/termination decisions to maximize the value of the portfolio.
2. Ability to determine the riskiness of each project, i.e. the variance per period in project returns for each project.
3. Ability to determine length of time the decision to invest in each project may be deferred.
4. Ability to compare the present value of assets of proposed projects to the discounted present value of the capital expenditure.
5. Ability to determine expenditure required to acquire assets of each project.
6. Ability to determine present value of assets of each project proposed for investment.
7. Ability to determine the time value of money, i.e. the risk free rate of return.

Dependencies exist among these capabilities. Capability 1 depends on 2, which depends on 7, 6, 5, and 3. Capability 3 depends on 4, which depends on 5, which depends on 6.

I also proposed that the capability "to determine the riskiness of each project, i.e. the variance per period in project returns for each project" depends on a separate best practice: "Portfolio managers and program managers assess confidence in project plans." This best practice too is achieved through a series of capabilities that an organization may develop incrementally:

1. Ability of portfolio managers and program managers to assess confidence in project plans.
2. Ability to confirm the availability of resources throughout critical paths necessary to achieve Work within allotted Duration for each project.
3. Ability to identify dependencies among all projects.
4. Ability to analyze the critical paths of all projects and to measure variance in the critical paths of all projects.
5. Ability to measure variation in activity duration values for all projects.
6. Ability to develop best, worst, and most likely estimates for durations all tasks of each project.
7. Ability to estimate duration and work for each project.
8. Ability to develop a WBS dictionary for each project.
9. Ability to confirm the scope of work for each project with the project sponsors and project customers.
10. Ability to understand the business drivers, constraints, and assumptions for each project.

Likewise dependencies exist among these capabilities. Capability 1 depends on 2, which depends on 3, which depends on 4, which depends on 5, which depends on 6, which depends on 7, which depends on 8, which depends on 9, which depends on 10. Such dependencies constitute a recommended sequence for developing the capabilities incrementally within an organization to achieve this best practice, i.e. 10, 9, 8, 7, 6, 5, 4, 3, 2, 1 in this example. Within a system of capabilities like these, small actions can have large, measurable effects. But failure to recognize a dependency can result in false starts or significant delays.

When I co-founded the PMI Metrics SIG several years ago, I had hoped that the work ahead for the OPM3 would propel the discussion of project management metrics forward throughout industry. Now that OPM3 is in its final stage I have confidence that the model will do exactly that. For each capability in the OPM3, outcomes that result from having or using each capability have been defined. For each outcome, key performance indicators using metrics also have been defined to help users assess whether the intended outcomes have been produced in their own organization. OPM3 will provide both the roadmap of dependencies among capabilities leading to best practices, and methods to assess and measure whether each capability has produced the intended results.

The best practices and capabilities described in this article reflect only a very small number among hundreds incorporated into the OPM3. If the capabilities leading to each best practice constitute roadmaps to maturity, then the entire OPM3 is like an atlas, allowing organizations to choose different domains of project, program, and portfolio management that they wish to explore and develop. While an increasing number of project management practitioners have begun to talk about project portfolio management, sometimes borrowing principles from financial management and sometimes simply reusing catch phrases, after December 2003 everyone will be able to reference a new standard that approaches the subject systematically. Like any first release, the product will not be perfect, and opportunities will always exist to refine and perfect the model. But the mere existence of the model in a tangible form will transform opinions from so many experts-of-the-week into practical steps for action that can be critiqued widely and improved. The model will propel discussion regarding techniques like project portfolio management to new levels of maturity. Users will learn about the practical implementation of organizational project management and ways they can orchestrate change to achieve maturity using practical tools.



John Schlichter has implemented PMO's and other project management solutions in many organizations. He has presented on project management topics throughout the world to many organizations. He has spoken at the PMI's Seminars & Symposiums, the PMI Europe Conference, PMI Chapters in America and Europe, and the IPMA's World Congresses.

He earned both his Bachelor of Arts and his Master's in Business Administration from Emory University.

John Schlichter is a principal of OPM Experts, LLC. You may reach him at jschlichter@opmexperts.com or 404.728.0650.