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White Paper

Make the Commitment to Project Portfolio Management:

Assess, Analyze, Refine – Reap the Rewards

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Make the Commitment to Project Portfolio Management

Corporate strategy remains just a pipe-dream unless projects are initiated to move the company towards its strategic goals. Like players on a team, projects must be coordinated with each other and with organizational realities and objectives. Project Portfolio Management (PPM) is the process that facilitates this coordination. Used effectively, PPM ensures that projects are aligned with corporate strategies and priorities and optimizes resource allocation. It bridges the gap between the executive decision process and project execution.

How do you get started? Many organizations begin with tool implementation, but this can be a mistake. More important to the success of PPM is the change readiness of your organization around seven key elements of organizational culture.

Assess Organizational Readiness

Is your company ready to implement PPM tools and practices? You'll need to make sure that you put the following organizational attributes, infrastructure, and practices in place:

1. Develop a coherent strategy.

PPM uses project activities to move the organization towards a goal. According to research on PPM, groups and individuals who conduct strategic planning are consistently more successful at achieving goals than those who don't utilize it. The strategy provides a source of shared vision that should be used to determine which opportunities to pursue – the first step in portfolio selection.

2. Manage projects and programs well.

Walk before you run. Trying to implement PPM before mastering the basics of project management puts the cart before the horse. Without project management methodology and practices in place, you don't have the basic project performance data you need to work with. Bad project data means that cost and schedule estimates are exercises in fantasy.

3. Know what projects already exist.

What's in the portfolio? Many companies don't know. An inventory of all the initiatives competing for resources is a baseline requirement to even begin portfolio management. Many companies set criteria for what counts as a project to be listed (for example, only projects that surpass a predetermined threshold number: a schedule of 30+ days or 100+ hours; or a budget of at least $50,000). Counting projects is a first step towards deriving value from portfolio management, because certain realities are quickly revealed: if you schedule 130 percent of your human resources to projects, for example, a lot of things will not get done (and valuable people will quit or go crazy).

Even this basic step surfaces redundancies and dead issues, allowing a PPM initiative to create value almost immediately. The inventory has to include all projects, since resources are working on all projects – not just on the high-profile ones. And it should include projects that are being carried out by outsource providers and consultants, as well, since even those projects have at least someone within the company as a liaison, contract manager, and/or project manager.

These hours often get lost in the decision-making process, only to show up later as a cost or schedule overrun. Operations work, to the extent that it draws on resources needed for projects, must also be considered.

4. Fully describe all planned and existing projects.

Once the parameters of the list are decided upon, each project on it must be described. Details such as technologies required; estimates of time, cost, and personnel required; and a basic risk/reward calculation give portfolio managers the data they need to compare and contrast projects. Companies skilled at opportunity identification and business-case development on one hand, and at tracking existing projects on the other, have a significant advantage at this stage. Their lists will be more complete, and their estimates more meaningful. Many questions must be answered in detail before you can begin to select and prioritize the projects in the inventory, and some of the answers won't come easy. Which projects make the most money? Which have the lowest risk? Which have subjective value, in terms of community image or internal morale? Which are not optional – projects dictated by regulatory requirements, for example? In the information-gathering process, a second level of shakedown will naturally come about. Some projects will be held off because human resources aren't available, some because the technology is immature, some due to looming external risks. Much, if not all, of the information necessary to populate the database about projects in the inventory is generated by the steps in the project management process: scope definition, risk management, scheduling. The software and resources required to generate, analyze, and deliver this information shouldn't be scattered all over the organization, but unified under the flag of a PMO.

5. Confirm that the project data is reliable.

You won't make good decisions based on bad information. This is where the enterprise-level project management tools with portfolio management capabilities really earn their keep. Gathering data in such a way that it can be put into context and become information is where software reigns supreme. How long will each project take? How much will it cost? What's the expected ROI? What's the status of the projects already underway? Being able to view the most salient information on each and every project in thumbnail-sketch form allows executives to compare apples to apples … and weigh the relative benefits of apples vs. oranges. What is less certain is the organization's willingness to use these features of the software and to train the users appropriately. This is a cultural change issue that is often not well addressed when selecting a PPM tool.

6. Know who is available to work on projects, and when.

A second part of the inventory process should be, literally, counting heads. Who are the project managers? Surprisingly, many large companies struggle to identify project resources. For some companies, the scarcest resource isn't money but project managers. A critical factor in project selection thus becomes: Do we have a project manager who can manage it?

How many project managers and project team members do you have? What is each one doing, right now? When will he/she be finished? What are his/her areas of expertise? Without a system for knowing what each person in the pool of potential project personnel is capable of, and when they will be available, you cannot really be said to manage a portfolio. People do projects. Without them, all you have are ideas.

7. Have a PMO in place.

Assuming that you plan to implement PPM at the enterprise level (which we recommend), an enterprise-level PMO needs to own the project inventory, prioritization, selection, and tracking process or, PPM cannot be done well. Gartner, Inc. has recommended this PMO strategy, and those companies that have put enterprise-wide PPM in place have relied on it. In fact, while intra-departmental portfolios may perhaps be selected and balanced without involvement of a PMO, it's doubtful that anything on a wider scale can succeed … and you can't optimize the system by balancing only parts of it.

This is undoubtedly why Gartner predicted years ago that companies failing to establish a PMO would experience twice as many major project delays, overruns, and cancellations as would companies with a PMO in place. New research tells us that companies are moving toward the PMO as the owner of portfolio management. Over 30% of companies are presently structured this way while over half who say they will implement PPM in 2013 plan to give the PMO responsibility for the process.

Portfolio Assessment Quiz

- Does your portfolio reflect and support the business's strategy?
- Have you established support for new projects and projects in need?
- Is each project consistent with your business strategy?
- Does the breakdown of project spending reflect your strategic priorities?
- Is the economic value of your total portfolio higher than what's been spent on it?
- Once projects start, is there a mechanism in place to "kill" them if warranted?
- Are your projects delivered on time? On budget?
- Are success rates and profit performance results consistent with expectations?
- Is your project portfolio heavily weighted to low-value, trivial, small projects?
- How are opinions of key decision-makers captured in order to make project decisions?
- Are there redundant projects being performed?
- Have all your projects in play been justified based on solid business criteria?
- Of those projects that were approved, are they still justified?
- Do the managers and team members know where the projects they are working on fit into the priority ranking that best supports the business?
- Are there enough resources to get the work done; and if there are not, what trade-offs need to be made?
- Which projects make the most money?
- Which have the lowest risk?
- Which have subjective value, in terms of community image or internal morale?
- Which are not optional – projects dictated by regulatory requirements, for example?

Adapted from Amir Hartman, *Portfolio Knowledge*, Aug. 2002.

The Fundamental Practices of PPM

The fundamental practices of PPM include linking strategy to project prioritization and selection, and balancing an organization's portfolio to achieve the best results. They also typically include stage-gate models, a process for defining and estimating new projects, communication and review processes for the portfolio, project tracking and reporting, and continual portfolio re-alignment, including processes for killing projects when required. Your organization needs to apply these fundamental processes and develop a standardized approach to create and manage a diversified portfolio of projects. The stakeholders for the PPM process include financial managers, senior business executives, employees, vendors and customers – even, ultimately, the stockholders if you're a public corporation. PPM provides a holistic view of all the work planned and taking place in your organization.

PPM consists of a number of fundamental processes that must be integrated to successfully implement and institutionalize PPM. These processes can be grouped in various ways – here are a few ways to conceptualize them; while somewhat overlapping, they all address different aspects of PPM.

Six Key Processes

Portfolio management is accomplished through the application and integration of portfolio management processes such as:

- **Inventory** — a process for capturing project data and organizing for portfolio analysis.
- **Analysis** — a process for aligning projects to business strategy, examining business and project risks, then selecting and prioritizing projects in the portfolio.
- **Planning** — a process for approving and funding the project business plans, allocating resources and scheduling projects. Funding and resource allocation must be based on the identified priority of the project.
- **Execution** — a process for executing the portfolio of programs and projects by means of budgeted resource allocations, with a focus on getting the work done efficiently and effectively. In order to execute quickly, in the correct sequence, your organization must adhere to its project capacity. Any organization that is overloaded with too many projects sees a dramatic increase in resource multi-tasking or sharing with a devastating slowdown in project flow. Quick execution also demands that you effectively monitor project execution to ensure that out-of-control situations are speedily recognized and acted upon.
- **Monitoring/controlling** — a process for tracking a portfolio as programs/projects are executed, detecting problems or changes in underlying premises, and reporting to appropriate management levels.
- **Portfolio improvement** — a process for making necessary adjustments to the portfolio, not once but iteratively and formally, so that re-balancing and analyzing the portfolio becomes simply the way business is done.

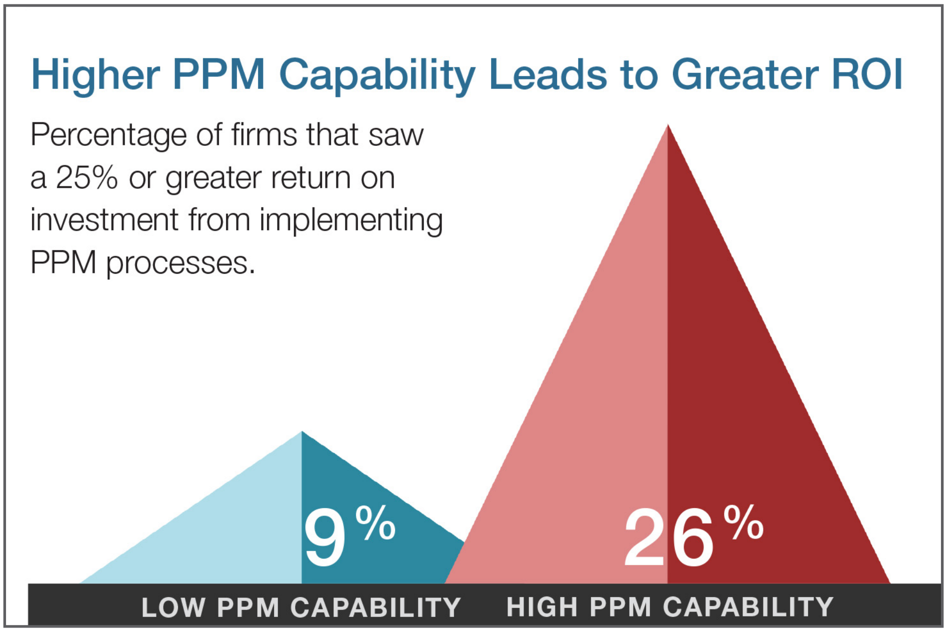

Figure 1. The value of improving Project Portfolio Management (PPM) capability stands out in the statistics related to return on investment (ROI). Firms at higher levels of PPM capability more often saw a 25% or greater ROI from implementing PPM processes.

Best Practices in PPM

Our *Strategy & Projects* research study identified six PPM best practices. Organizations that consistently used these practices also ranked among the top in organizational performance and project management performance. The best practices include:

- A list of current projects (active, proposed, on hold) is documented.
- Projects are prioritized using a scoring system that uses strategic alignment as a criterion to determine the priority of the project with respect to other projects.
- Metrics are captured to assess the performance of the project portfolio.
- Performance results of the project portfolio are communicated to stakeholders.
- Reviews of portfolio performance and changes in the business environment may cause decision makers to realign the portfolio (killing projects or putting them on hold, re-allocating resources).
- Enough resources are in place to make the project portfolio achievable.

The most often used practice by high-performing organizations is having a documented list of the organization's current projects; high performers are also significantly better than average at having enough resources in place to make the project portfolio achievable.

In addition, our *State of Project Portfolio Management 2013* study showed that organizations that invest in PPM over the longer term see a marked uptick in the return on investment (ROI) derived from these practices. Firms that reported higher capability levels tended to have had PPM in place for five years or more; and higher-capability organizations were nearly three times more likely than lower-capability organizations to report ROI of 25 percent or more on their PPM investment (see Figure 1 above).

The Role of the Project Portfolio Manager

The Project Portfolio Manager's responsibility is ideally enterprise-wide, but in practice may be limited to projects in a particular division, such as IT or R&D. This position manages the corporate or divisional project portfolio by managing the process for identifying, selecting, and prioritizing projects that support corporate business strategy. This is done using a facilitative process, with the Portfolio Manager (or Project Management Office Director) facilitating decisions with the leadership team by providing data, inputs, analysis and facilitative assistance so that executives reach prioritization conclusions and ultimately "own" the organization's projects. This position reports to an upper-level executive; in a small company, it may report to the CEO. The responsibilities described below may also reside with a Chief Project Officer or Director of Enterprise Project Management; on a divisional level, they may be rolled into the PMO Director position responsibilities.

Suggested Duties and Responsibilities

» With a team of project stakeholders from all levels of the organization (C-level at the enterprise level; senior managers at the divisional level), responsible for developing formal criteria for identifying, evaluating, prioritizing, selecting and approving the set of projects that form the corporate (or division) project portfolio.

» With an executive committee, administers and facilitates the portfolio management process, including oversight of documentation and periodic reviews.

» With senior executives from the finance function, works to establish a system for quantifying project benefits so that project approval decisions can be made objectively.

» Assists the PMO Director in identifying project interrelationships that will affect priority and resource allocation decisions.

» With functional managers and project managers, oversees the process for collecting the project data on which portfolio decisions are based.

» Monitors projects in the portfolio (such as milestones, schedule performance, resource constraints) and updates executives on progress in the portfolio.

» With functional and project managers, analyzes the impact to the existing portfolio of changes in existing projects or of the addition of new projects outside of the portfolio process cycle and identifies strategies (resource allocation, project sequencing) for accomplishing all the desired projects.

» Oversees the distribution of project portfolio information to executive management, directors, and other key personnel.

» With the director of the PMO and project managers, works to translate portfolio decisions into appropriate planning and execution of projects.

Source: Crawford, J.K., et al. (2008). *Project Management Roles and Responsibilities, Second Edition*. PM Solutions Research (formerly Center for Business Practices). See also PMI's *Standard for Portfolio Management, Third Edition*.

Getting Started

You don't have to wait to start using PPM until you have all of the best practices listed on page 7 in place, so long as there is an enterprise-wide recognition of the need to establish these practices. Any improvement your company can make in managing the portfolio – even if it is as simple as taking inventory – will yield immediate value. Here are some suggestions from the experts:

Start small and keep it simple.

Introduce new processes in a phased approach that address the most important activities, including estimation, selection, prioritization, developing performance metrics, and defining a decision process. Smith and Reinertsen's research on the fuzzy front end of product development indicated that even otherwise well-managed companies can fail abysmally at opportunity management, due to the complexity of their process for dealing with new ideas. In one example cited in their book, the fuzzy front end at a start-up company was 500 times faster than it was at a Fortune 500 company, where bureaucratic planning and budgeting processes "guaranteed defeat."

Establish a home for project management and PPM.

PPM bridges the gap between the executive decision process and the day-to-day project execution that brings value to an organization. As shown in Figure 2, the place in the organization where these two practices meet most seamlessly is in an enterprise PMO. The development of a strategic PMO and the implementation of PPM go hand in hand: portfolio management may not even be possible in an environment that lacks some kind of enterprise-level project management presence. Just as project management can fail without senior leadership involvement, PPM can fail for lack of project manager input. Without the input and buy-in of project personnel, it is difficult to maintain continuity between the selection and execution phases.

Figure 2. The Strategic PMO integrates strategic planning and project execution through project portfolio management.

An enterprise-level PMO, with personnel dedicated to portfolio tracking and management (see "The Role of the Portfolio Manager" to the left) assures this input and buy-in.

Measure performance and business value right from the start.

The majority of companies in the State of PPM study did not know the ROI earned by their portfolio management investments. It can be more complicated to retrofit a measurement system than to include it at implementation, so plan to measure value from Day One. Performance reporting on the project level, a key piece of PPM, must be translated into business value to the organization. Merely knowing you are on schedule is no longer sufficient: delivery improvements must be shown to impact measures important to the overall organization, like time-to-market, cost savings, revenue enhancement and customer satisfaction.

The Buck Stops Here

Although PPM often gains traction within IT departments, there is simply no way for top-level corporate leaders to hand off leadership on the PPM front. That's because choosing the groups of activities that create value is inherently a strategic activity. And, the basic issues that arise when developing a portfolio management process are issues that touch on organizational development. Writing in the *Harvard Business Review*, Jim and David Matheson identified some of these issues:

» How can we aggregate our opportunities into manageable strategic projects?

» Who is the overall process owner? Who will facilitate the analytical process?

» How do we get top management and project leadership to buy in to the results?

» How will business and marketing units interact in the process? Should we use one cross-functional decision team for the whole portfolio, divide responsibilities by business or technical areas, or use a multilevel review structure?

These are not project management questions. The management of the corporate portfolio of projects is a strategic management issue. In summary, project portfolio management provides a consistent way to evaluate, prioritize, select, budget for, and plan the right projects – those that offer the greatest value and contribution to the strategic interests of the organization. When used effectively, portfolio management ensures that projects are aligned with corporate strategies and priorities, that the portfolio contains the right mix of projects, and that resource allocation is optimized. It is the practice that bridges the gap between the executive decision process and project execution.

When the commitment is made to PPM, your company can effectively execute on projects that are meaningful to your organization's vision, increasing your chances of achieving your long-term goals while executing on important short-term projects.

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Note: PM Solutions' Research was formerly known as the Center for Business Practices.

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