THOUGHT LEADERSHIP WHITE PAPER

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Portfolio Management 101:

Moving from 'Just' Project Management to True PPM

A lot of organizations claim that they carry out project & portfolio management (PPM), but when one drills down in a little more detail it frequently turns out that they are really only carrying out consolidated project management. Of course it's important to understand how all of your project resources are allocated, gain a consolidated view of all of the initiatives that are underway, and a have single place to track risks and issues., But true portfolio management is a much more strategic approach that requires an organization to consider two major categories that are well beyond the scope of project management:

- End to end management – portfolio management has to start with idea generation and business case development, move through portfolio modeling and approval and into the project management domain. It then needs to continue through benefits realization, the confirmation of business objective achievement and the undertaking of corrective actions.
- Strategic management – portfolio management needs to be focused on the ability of the organization to achieve its goals and objectives, even if that compromises the ability of individual projects to successfully complete their deliverables.

In this white paper we are going to look at these elements in more detail and explore what organizations need to do to implement 'true PPM 101'. Before we go too far down that path though, let's establish exactly what a portfolio is!

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Organizations are constantly looking to grow, and to achieve that they generally have aspirational multi-year plans and more tangible annual goals and objectives. The nature of those objectives will vary considerably from one organization to the next – revenue growth, profitability growth, cost containment, market share expansion, etc, but they all involve some form of change. On a regular basis, usually annually, the organization will review and approve a number of initiatives that are intended to deliver those changes. Collectively those projects will make up the portfolio – so far so good. However, I don't want you to think of the portfolio as a group of projects, rather I want you to think of it as the single entity that delivers the organization's goals for the current period. That's an important shift in focus, and as we go through this paper you'll see why.

Start at the Beginning: Generating Ideas and Business Cases

If the portfolio is the way that we achieve organizational goals then all of the work that goes in to trying to help the organization to achieve those goals should be part of the scope of portfolio management, and at the very beginning of that process is the generation and development of ideas. Idea generation is not something that happens during the few weeks that leads up to the annual project review and selection meetings, it is something that happens throughout the year, and if the organization doesn't have a well-defined, well understood process for capturing, sharing and developing those ideas then many of them are lost.

Of course ideas can't just be good, they have to be relevant to what the organization is trying to achieve, and that means that the goals and objectives need to be openly communicated to all areas of the business so that those ideas can be developed – they aren't only generated at senior levels! This shouldn't be difficult for organizations to do – they have multi-year strategic plans and year over year growth should build on previous years and help move the organization towards the achievement of those plans. There will be some change through the year, and there will be some elements that have to remain confidential – a targeted acquisition for example, but helping employees to understand the path that the company is on and what it is trying to achieve is never a bad thing.

This may be the most crucial part of portfolio management, even though the work involved is relatively small. An idea that is 'lost' at this stage will never have the chance to deliver any benefits and there is no way of knowing how much lost opportunity that will represent. Portfolio management therefore needs to provide an environment where ideas can be captured and shared. This may be nothing more than an existing collaboration tool, in fact the simpler it is the better because it will be more accessible to more employees within the organization. Once people have a way to record their ideas and share them with colleagues those ideas can be discussed, they can merge with similar ideas, they can evolve and be refined and the best ideas will slowly rise to the top as part of an ongoing process. Then when the more formal annual planning tasks begin the organization can simply 'harvest' the best ideas and allow the rest to continue developing.

Those more formal steps begin with business casing, and portfolio management should take a more active role here providing a framework for the business case development. One of the biggest challenges that organizations face when reviewing and approving projects is that they are being asked to make decisions between initiatives that are not readily comparable. Portfolio management can help to overcome that by helping to ensure that every business case is developed with consideration for the same factors. This is more complex than simply providing a standard template and insisting that all proposals include cost of capital calculations or revenue projections, rather it is about ensuring that each proposed initiative focuses on the contributions that it will make to the goals and objectives, that cost estimates are based on the same data sets and assumptions, etc.

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None of this replaces the need for qualitative decision making, and there will still be spirited debate over the merits of one approach over another, but portfolio management can help to remove the 'unnecessary' variables and focus the decision making on the key differentiators. Consistent business cases are also easier to subject to portfolio modelling. This is the process of reviewing the merits of different combinations of projects to identify the combination that can best achieve the goals and objectives while still being sensitive to the costs required to deliver those benefits and the restrictions that the organization operates within (availability of specialist skill sets, available resources for project execution, ability of individual departments to absorb the proposed work, etc).

Only when all of this work has been completed objectively can we be confident that we are approving a portfolio of projects that has the best chance of delivering the organization's objectives, and that has a good chance of being successful with appropriate management. At this point more traditional project management will kick in, but as we will see later there is still a portfolio management focus to that project execution. Before we consider that however, let's finish our end to end journey and consider the role of portfolio management after project completion.

Measuring Business Outcomes, Not Project Deliverables

If our focus is on organizational goals then it follows that we have to measure the actual performance of our project deliverables and compare that against the expected outcomes. The deliverables themselves are important to project managers, but from a portfolio standpoint they are simply the tools that facilitate organizational growth. While the specific benefits – revenue growth, operational savings, etc may be tracked and reported by the functional departments that own the project output it is up to portfolio management to ensure that the measurement is occurring and that the numbers are accurate. Further, portfolio management may have to act to resolve any variances from the actual contribution to the portfolio objectives and the planned contribution. This might include:

- Changes to other portfolio projects to compensate for shortcomings
- Commissioning of new projects to deliver results that are no longer capable of being achieved
- Changes to project scheduling within the portfolio to change the duration / timing of benefits

It should be noted that while this assumes that actual benefits fall short of expectations there is also the possibility that they exceed expectations which will provide increased flexibility in other portfolio areas that may not be doing so well. Regardless of whether the variance is good or bad, portfolio management should also conduct an analysis of the business case for initiatives with variances to see whether there are opportunities for improvements in the estimation and proposal work, or in the processes used for that work.

Achieving a Strategic Management Focus

The second category of work that sets portfolio management apart from consolidated project management is the treatment of projects as a subset of the portfolio rather than as standalone initiatives. An example will help to illustrate the difference.

Consider a project that is experiencing a schedule delay of three months. The project manager has worked with the team to try and recover from the delay, but without outside assistance it is clear that the project will be late delivering its benefits. However the project is still tracking to budget, it will deliver the full scope, is meeting its quality standards, and the risks are under control. A project management based approach would likely see either acceptance of the delay or an agreement to sacrifice one or more of the other constraints in order to recover the schedule – spending more money or eliminating something from scope for example.

A portfolio management approach will take a different view of this initiative. The focus will be on the implication of the three month delay on the goals and objectives. If the reduction of current year benefits can be absorbed within the portfolio – in other words the organization will still achieve what it needs to do, then the delay will be accepted, but if the organization will no longer be able to achieve what is expected to then action will be taken. Those actions will be designed to maximize the likelihood of achieving the expected objectives for the portfolio with minimal additional cost to the portfolio (whether that is measured in terms of money, effort, risk, or another metric). The most appropriate action in this case may have nothing to do with the project that is suffering – it may involve a change to another project that will enable additional benefits to be delivered and / or the benefit to occur earlier. Effectively we

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are making the individual project deliverables 'irrelevant', and are instead attempting to ensure that the organization as a whole is successful.

In extreme situations this portfolio management focus may result in the cancellation of perfectly good projects in order to free up resources to assign to initiatives that will make a bigger contribution to the organization. This is difficult for project driven organizations to accept, but it is exactly what is needed – an organization that successfully delivers its projects and fails to achieve its objectives will not succeed.

One of the implications of this approach is that the portfolio management function within an organization needs to take ownership of project execution resources. The organizational structure needs to be dynamic enough to allow for resources to quickly be moved from one initiative to another without complex approval and communication steps adding inertia to the process. This requires a cultural commitment to a portfolio driven approach as well as strong skills management to ensure that the right people are available at the right time with the right skills.

There is an additional impact to this approach which is more fundamental to the way that many organizations operate. If portfolio management has the ability to implement significant change to projects, and even make add and remove projects from the portfolio then there is the potential for significant conflict with department heads who will traditionally be held accountable for and measured against the success of the projects that fall within their departments.

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In a portfolio management driven approach the individual department goals and objectives have to be driven from the decisions made about the project mix within the portfolio, not arbitrarily set ahead of the portfolio being defined. Further, there has to be a willingness to review and revise those department level objectives as changes are made to the portfolio. This should always be in the form of realignment – moving of objectives across departments rather than simply giving 'relief' because the overall organizational goals are remaining the same. If an organization fails to take this approach to departmental goals and objectives then department heads will manage to their individual metrics, not those of the organization as a whole. For many organizations this can be a significant shift, but it shouldn't be – if organizational and departmental goals are not aligned then the likelihood of overall success is significantly diminished.

The same scenario needs to occur when the organizational goals and objectives change. It's unrealistic to expect that during the course of a year the goals won't evolve due to changing circumstances, shifts in the competitive landscape, new opportunities, or any number of other factors. Those shifts need to drive changes in the portfolio that may lead in perfectly good projects being cancelled or significantly changed simply because the benefits that they were driving are no longer as important.

For organizations who have built their project execution approach around the concept of the project being the main unit of performance, a portfolio management approach can have a significant impact on the performance and motivation of project managers and their teams, and that's what I want to look at next.

Harmonizing Portfolio And Project Management

Many of the concepts around portfolio management will resonate well with project managers. The idea of a more structured and planned project selection and approval process during the annual planning exercises will result in better planned projects, fewer major changes, improved scope, etc and will make it easier for project managers to gain traction when initiating and planning their projects. Similarly, the work to ensure that benefits are actually realized will help project teams feel as though their efforts are not going to waste, they know that the benefits that they are trying to deliver will actually be consciously managed when the project itself is complete.

Clearly though the role of portfolio management during the project has the potential to create a lot of conflict and disharmony. Project managers may feel as though their efforts to manage initiatives are being undermined by portfolio management, or that their efforts are being compromised by decisions that are being made without regard to the project needs. Even if project managers understand the importance of portfolio management and recognize that decisions have to be made for the good of the portfolio, they may feel as though their role is being diminished and that they have no control over the projects that they are managing.

It is therefore vitally important to develop a strong relationship between portfolio and project managers and to help project managers understand the vital role that they play in portfolio management. While there may well be occasions where projects have to suffer because of the needs of the portfolio, there will be many more occasions where the portfolio can benefit from project managers. Project teams are at the forefront of the work that is done to achieve organizational goals, and if project managers understand the overarching portfolio priorities then they will be able to make management decisions that are focused on the needs of the portfolio rather than simply the needs of the project.

As a simple example, if a project manager understands that the project that they are working on is intended to contribute to revenue growth then they can make decisions that protect the ability of the project deliverables to meet those revenue targets – preserving scope, quality and schedule and potentially compromising cost and accepting more risk. There may still need to be stakeholder (including portfolio manager) approval, but smarter decisions can be made at the project front line with a strong relationship between portfolio and project managers.

Extending this understanding of portfolio needs to project teams the project manager will be able to help his or her resources understand how their efforts contribute to the overall goals of the organization. It has been well established that people are more committed if they understand the value of their work and if that value can be directly connected with the good of the overall organization rather than simply an individual project then the commitment and motivation can be greatly increased.

Creating A Portfolio Management Culture

The kind of change required to create true portfolio management within an organization cannot occur overnight, it requires a long term commitment at all levels of the project execution environment. However, there is no requirement to implement all of the elements discussed here at the same time. A phased implementation that starts with the more straightforward changes – consistent business case approaches, monitoring of benefits, etc can still deliver significant benefits and can help to create a foundation that all organizational stakeholders are comfortable with. Additionally, organizations can use an individual department or departmental PMO as a pilot before expanding the approach across the rest of the organization.

The danger with a phased approach is that portfolio management never fully integrates with the organization – new priorities and demands on resources lead to the diversion of effort from implementing portfolio management to other short term initiatives. This is a fatal mistake which will erode and undermine the work already done. This really should be seen as a long term commitment to implement a program, and that program should be part of the organization's portfolio itself – with goals and objectives that become increasingly significant over time as portfolio management becomes embedded within the organization.

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Portfolio management cannot succeed without the buy in of all stakeholders – executives, department heads, sponsors, customers, project managers and teams, etc. and this is where the focus should initially be when deploying a portfolio management approach. Many organizations will focus on trying to develop perfect processes, tools, controls, etc and while these are important they can be refined over time. Much more important is ensuring that the attitude and buy in is there so that all employees are pulling in the same direction – good people and commitment can overcome bad process, but good process can never overcome a lack of employee engagement.

Conclusions

Portfolio management has become one of the current buzzwords, but in reality few organizations have implemented true end-to-end PPM. The "consolidated project management" approach may well deliver savings over the current state of the organization, but it ignores the breakthrough potential value that can be achieved, and it risks creating benefits that are not sustainable because they are not truly supportive of organizational strategy.

A comprehensive portfolio management approach will take time to implement and will require significant levels of commitment from all areas of the organization. However, it will also create a much more efficient and effective project execution environment, and more significantly, it will help to ensure that all of the work that is undertaken within the project portfolio is aligned with the business goals and objectives that the projects are ultimately expected to contribute to.

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