Establish a Portfolio Management Office

The function of the project portfolio management (PPM) office is to manage the organization's project portfolio, which includes prioritizing projects, allocating resources to projects, and, on a regular basis, identifying which projects to initiate, reprioritize, or terminate. A key focus is ensuring that the overall collection of projects maximally supports the objectives of the enterprise. In addition, the office collects and distributes data for reviewing, assessing, and managing individual projects to ensure that they are meeting their expected contributions to the portfolio. As illustrated in Figure 17, portfolio management provides the necessary link between project management and enterprise management.

Figure 17: Portfolio management links project management to enterprise management.

An organization that establishes a PPM office demonstrates commitment to achieving PPM maturity. The practical indications of such maturity include the establishment of clearly defined PPM duties, the consistent application of PPM processes, and success in each and every aspect of project and portfolio management.

Participants, Authorities, and Responsibilities

The first step for establishing a PPM function is to decide who will participate as active managers of the project portfolio. A project portfolio manager, typically a senior manager, should be appointed with accountability for the success of the entire project portfolio. This is not always an easy position to fill. The successful PPM leader has a rare combination of talents: solid people skills plus technical acumen;
Choosing the Wrong Portfolio of Projects

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detail oriented but comfortable dealing in abstract concepts, experienced but able to think outside the box. The table below lists important skills of the portfolio manager.

<table>
<thead>
<tr>
<th>Important skills and capabilities for the portfolio manager</th>
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<tr>
<td>• Good understanding of the organization’s vision, mission, and strategy.</td>
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<tr>
<td>• Understanding of project and program management, including ability to assess project health based on high-level reporting documents.</td>
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<tr>
<td>• Leadership skills, including communication, presentation, and team building.</td>
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<tr>
<td>• Broad understanding of the business, including markets, customer base, partners, and applicable regulations.</td>
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<tr>
<td>• Able to interact effectively with senior executives.</td>
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<tr>
<td>• Good analytic skills, with understanding of the basic concepts and techniques for project valuation and risk assessment.</td>
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<tr>
<td>• Understanding of process development, change management, and continuous learning.</td>
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The portfolio manager should be given an estimate of the total funding to be made available, but it should then be up to the portfolio manager to determine how to allocate the funds within that cost constraint. It should be possible for the portfolio manager to suspend at any time further commitment of investment dollars due to cost increases, failure to make anticipated progress, changing economic climates, or shifts in business conditions. At the very least, the portfolio manager should have responsibility for recommending resource allocations for final approval by a committee of senior executives. In either case, senior executives should be enlisted to serve as a steering committee responsible for providing and updating (e.g., in response to changing business objectives) the value judgments and policy decisions needed to guide portfolio management.

A PPM team should support the portfolio manager. The team, oftentimes, includes department heads from sub-organizations that generate request for projects, provide project resources, and/or use project deliverables. The team should have responsibility for verifying cost, value, and risk estimates provided in support of project proposals and requests for resources. This team is then responsible for evaluating project proposals, accepting or rejecting proposals, accelerating and decelerating projects, allocating resources, and otherwise managing the project portfolio over time. One member of the team should be designated as the primary contact person for each project manager.

**Adopt a Successful Portfolio Management Process**

The successful PPM process includes four major components (Figure 18). First, a structured process is used to acquire key information about all projects and to organize the data into one or more project portfolios. Second, consistent and objective methods are employed to analyze projects and compare their risks and benefits. Third, resource demands are compared with capacity so that the subset of projects that make best use of available resources can be selected. The final component consists of tracking portfolio performance for ongoing assessment and adjustment. The management of these components is the responsibility of the PPM management team.
More detailed responsibilities of the team are illustrated in Figure 19. On a regular basis tied to the planning and budgeting cycle (i.e. annually, biannually, or quarterly), the portfolio team reviews all projects that are seeking funding, including ongoing projects and new project concepts. Projects are screened to determine which proposals require formal evaluation. Projects exempted from formal evaluation include obvious "non-starters," very small projects, and projects that are more appropriately funded from other budgets. Ongoing projects and "mandated" projects (i.e., projects that the organization is legally required to conduct) may or may not be exempted (see below).
Project managers with projects that pass the initial screening are authorized to use resources to complete additional analysis necessary to provide the data required for entry into project proposal templates. In some instances, the necessary resources can be fairly large. For example, a proposed construction project may require some minimal level of engineering analysis to determine feasibility, set project scope, provide cost estimates and estimate project effectiveness at addressing needs. Alternatively, a feasibility study for a large project might itself be a project that competes for funding within the project prioritization process.

Be aware that, in most cases, PPM forces an increase in the effort spent on analyzing project opportunities. The extra effort is justified by the need for better information to support decision making. To be as efficient as possible, screening systems may be used to select a different level of data requirements and analysis for different types or sizes of projects.

**Mandated and Ongoing Projects**

Although some organizations exempt mandated and ongoing projects from formal evaluation, my recommendation is that both types of projects be routinely evaluated along with new projects. In some organizations, "mandated" projects consume most of the budget. Very strict criteria should be provided for mandatory projects to ensure that they are defined with minimum possible scope and cost. Add-ons that go beyond what is strictly required should be defined as separate projects. Formally evaluating mandated projects promotes consistency, provides useful information, and helps the organization ensure that all of the benefits of mandated projects are, in fact, achieved.

Evaluating ongoing projects for continued funding is useful to ensure that struggling or obsolete projects do not prevent funds from being available to meet more-pressing needs. Where possible, large, long-duration initiatives should be reframed as a series of smaller projects. For example, in the case of a software project, it may be better to make incremental funding decisions to develop improved versions rather than deciding whether to create one big Version 1.0 that does everything. The concept is to identify small "chunks" of work of the minimum size and scope necessary to generate some measurable benefit.

Although project managers often object to re-evaluating their projects, requiring ongoing projects to be re-evaluated is not unfair or overly burdensome to the managers of those projects. Not as much effort is required to re-evaluate an ongoing project because template inputs need only to be updated rather than generated "from scratch." Estimates tend to get less uncertain as a project proceeds in its life cycle, and providing up-to-date inputs allows portfolio information to be kept current.

Also, ongoing projects normally have an advantage in the competition; the relevant costs are the remaining costs needed to obtain the anticipated project benefits, exclusive of costs already spent. Furthermore, when evaluating on-going projects, the costs of terminating a project must be considered. Avoiding contract termination costs, staff reassignment costs, etc., are legitimate benefits of continuing the project. Thus, achieving the required bang-for-the-buck usually isn't difficult for ongoing projects. If an ongoing project is eliminated, the decision should be regarded by all as an instance of successful resource reallocation, not as a personal failure on the part of a project manager.
Gate Reviews

Note that the evaluation of on-going projects for the purposes of project prioritization is not meant to replace other project progress evaluations. A large, multi-stage project may need to be evaluated at specified phases or "gates" to ensure that it is on track to meeting its milestones and deliverables (Figure 20). For example, a complicated project might include development of an initial concept, a feasibility study, a design phase, an engineering phase, and so forth. At each stage, managers may decide to revamp the project. Project gate reviews involve in-depth evaluations based on real-time information, but they are typically made in relative isolation to the decisions made on other projects.

With PPM, gate reviews can be used to trigger project re-prioritizations (prior to the next portfolio review) or even an immediate project cancellation. More typically, though, gate reviews result in modifications to project tasks. At least at the early stage of PPM adoption, it is usually best to allow portfolio management activities and gate reviews to proceed more or less independently. As PPM maturity advances, more sophisticated methods can be used to manage task-level detail as part of the PPM process.

Prioritizing Projects between Major Reviews

As demonstrated by the above example, projects may sometimes have to be evaluated between the major budgeting cycles. This is true even in the absence of formal gate reviews. For example, a project may need to be re-evaluated if there is a major, adverse change in the project scope, a risk event occurs, an assumption is found not to hold, or there is a realization after completing a portion of the work that earlier cost or schedule estimates were overly optimistic. Also, urgent new projects may need to be evaluated between planning periods. Evaluations between major reviews involve comparing such projects against the most-recently established project priorities. A contingency fund may need to be established to accommodate projects that may be added outside the normal budget cycle. Even so, if additional new work is authorized, it may mean some work previously authorized will need to be canceled or delayed.

Multiple Project Versions

Although it is not common to do so, it is often a good idea to require multiple versions of proposals for large projects. For example, if a project exceeds some specified size, some organizations will require project proponents to submit enhanced, decremented, and minimum-cost versions of the project, in addition to a base-case version. By providing project alternatives, organizations can avoid "all-or-nothing" choices for important, but resource-demanding projects. Also, as shown in Part 5 of this paper,
providing alternative versions of projects can result in a significant increase in the value generated by the optimized portfolio.

**Proposal Evaluation and Process Management**

Based on formal evaluations, projects are prioritized and "go," "no-go," "kill," and "hold" recommendations are made with the goal of creating a value-maximizing project portfolio. Project recommendations are reviewed by the executive committee and project funding for approved projects is authorized. Projects are phased based on critical paths to fit people and other resource constraints, with the most urgent projects starting first. Projects designated as "hold" may be resubmitted later (oftentimes project managers redesign such projects with the goal of increasing benefits and decreasing costs).

The PPM office monitors the status of on-going projects to ensure that projects stay on track to achieve the anticipated benefits that motivate their being included in the selected project portfolio. Once the project is completed, the products (assets, services, etc.) delivered by the project should be similarly monitored and evaluated to ensure that the forecasted benefits are realized. The performance of activities that utilize project outputs is typically beyond the responsibility of the project portfolio manager. However, it is important for responsible managers to provide the PPM manager with feedback on the extent to which actual benefits are in fact achieved. Without such feedback on actual performance, there is no real accountability.

In addition, the PPM office should:

- Ensure consistent and accurate progress reporting on the costs and other critical resources consumed by projects.
- Define and develop the detailed, continuous process by which projects are evaluated, prioritized, selected, and managed.
- Enforce a collaborative effort that enables senior executives (the steering committee) to reach agreement on portfolio goals and objectives.
- Provide coaching and training to project managers to help them to understand project evaluation criteria and to enable them to efficiently generate inputs for the project template.
- Communicate to project proponents and other stakeholders which projects are approved and project priorities.
- Provide stakeholders with timely assessments of portfolio progress, with early identification and correction of portfolio-level issues that may impact performance.
- Adjudicate resource conflicts between projects.
- Maintain visibility of key project information across the enterprise.
- Ensure that the project portfolio remains in tune with changing business objectives and strategy.
- Identify lessons-learned and continually refine the PPM process.
References for Part 2

