Integrated Portfolio Management – Achieving the Goal

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Introduction

Organizations often talk about their project portfolio, and in some cases they will even talk about portfolio management, but how many organizations truly practice that concept? For many organizations a portfolio view of projects is simply a case of consolidated reporting and perhaps a management decision to reallocate resources across projects to try and alleviate some problems. This is a long way from true portfolio management, and as a result the benefits are also a long way removed from what can be achieved. In this whitepaper we want to look at why an organization wide, integrated portfolio management approach is important, and examine some ways that organizations can move towards achieving that goal.

What is Integrated Portfolio Management?

Before we can start looking at why it’s important and how to achieve it, we need to define exactly what we mean by integrated portfolio management. There are a number of elements to consider here, but let’s start with the most basic concept, the idea of a portfolio.

A portfolio is not simply a collection of projects; rather it is a vehicle by which an organization transforms its business. Each year an organization will identify a series of goals and objectives that need to be achieved for the year to be considered successful. These may include areas of revenue growth, market share growth, product development, cost reduction, regulatory compliance, or any number of other areas that strategically move the organization forward. The projects themselves form the major part of the work that is designed to achieve those goals, but this is a more strategic way of viewing the work and it is important. Project management focuses attention on an individual project, ensuring that the deliverables are achieved on a given schedule and budget. Portfolio management is a very different discipline.

Portfolio management requires:

1) Prioritization of all project proposals based on business goals
2) Selection and approval of projects based on alignment to business goals, budget, and resource capacity
3) Project management execution
4) Ability to course correct if priorities change & perform ‘what if’ scenarios
5) Insuring that project delivery leads to business outcomes which translate the strategy into actionable and measurable results.

As a practical example, if we approve a project to expand the features of an existing product in order to gain a 5% increase in market share then the focus has to be on gaining that market share, not on the defined features. If we deliver all of the features but gain only 3% market share then the project has failed, but if we deliver only 80% of the features and still gain 5% additional market share then the project has succeeded from a portfolio standpoint.

This is a very different way of looking at things for many organizations, but this strategic, goal oriented focus is a cornerstone of portfolio management. This focus also implies that the timeframe for portfolio management is different from the timeframe of project management. Once the deliverables have been handed over to their owners the project team will disband and move on to the next initiative, but this is the most critical period from a portfolio standpoint – the ‘tools’ by which the goals will be achieved have been delivered, but now those tools have to generate the benefits that are expected. Portfolio management needs to monitor the achievement of the expected benefits, ensure alignment with strategic objectives, and if necessary take corrective action to address any variances.

In addition to extending beyond the completion of project management activities, portfolio management also has to begin earlier than project management. Thinking back to our strategic focus, one of the most critical tasks is to ensure that the projects that are proposed and approved are capable of delivering the organizational goals and objectives that are expected. Many an organization has approved a suite of projects that even if they deliver perfectly will still not allow the organization to
achieve what is expected. This may be the result of bad planning and estimation, or it may simply be a failure to understand
the organization’s environment, but whatever the cause it is the role of portfolio management to ensure that this can’t happen.

With an understanding of the strategic focus and the longer period of management we have a good understanding of what
portfolio management is, but there was another word in our term – integrated. As the word suggests this relates to the use of
portfolio management approaches across the entire organization. Every major initiative in every department should be part of
the same overall portfolio management approach. Every departmental PMO should use the same discipline and should
contribute to the same portfolio – these are organizational goals and objectives, not departmental ones.

The concept of integrated portfolio management goes further – the management of infrastructure, applications, processes, etc.
all should be undertaken with a portfolio management perspective. For example, just because an application is running on old
infrastructure doesn’t mean that it needs to be upgraded – it may still meet the needs of the organization and an investment in
an upgrade may not help the organization achieve its goals (or the investment may generate better returns elsewhere).

Of course there are limits – we don’t expect every single service request, or every small project to address a specific need in a
single department to be subjected to portfolio management, but we do expect those initiatives to be reviewed and approved
with a conscious understanding of the organizational priorities – wherever possible work should align with needs.

The Benefits of Integrated Portfolio Management

Okay, so now we understand what integrated portfolio management is, but why is it needed? Organizations have been setting
goals and objective for a long time, and the idea of an annual planning process to review and approve the projects that will
deliver those goals is hardly new either, so why do we need to do more?

The obvious answer is that the current approaches aren’t working very well. The number of organizations that actually
achieve all of the goals and objectives that they set for themselves is relatively small; the number that achieve it through good
planning and solid execution rather than blind luck is even smaller!

For many organizations, annual planning is something that occurs in a compressed timeframe once a year, often with only
rudimentary analysis of proposed initiatives. Additionally, it is often a ‘battle’ between departments to achieve their preferred
project mix rather than a collaborative exercise to ensure that the best solutions for the organization as a whole are approved.
What’s more, once the annual planning is completed there is often little follow up or adjustment during portfolio execution –
unless something fundamental changes in the organization’s priorities the project mix is rarely changed. This is effectively
project level management with simply a once a year central approach to project approval and funding. The management and
execution remains project based rather than portfolio based and results in the project deliverables focus that we discussed
earlier rather than the corporate objectives focus of portfolio management.

If the organization takes the broader portfolio approach to management then results are much more likely to align with the
organizational needs right from the outset. For example, if the organization has strategic priorities that are well understood
throughout the organization then the ideas that are developed into business cases and become project candidates can be
developed with those goals and objectives in mind – proposals are aligned with organizational needs from the outset. If the
organization also has processes and tools that support the sharing of ideas, collaboration among different groups, and
consistent approaches to business case preparation then the foundation becomes even stronger. The organization can enter
the annual planning exercise with project candidates that better align with the goals and objectives and that can be compared
objectively because they are developed using similar approaches.

Of course there is still a need for good judgment in the project approval process, some projects may not contribute to the
corporate objectives for another two or three years, but still form a key strategic element of the organization’s future. There
will also be foundational initiatives that have to be undertaken to maintain the technology and business infrastructure and provide a solid framework for the rest of the initiatives (and ongoing operations) to be successful.

The benefits are not simply limited to the project selection and approval process, once the portfolio gets underway the portfolio management view can deliver even more, and more significant, benefits. Traditional project management is rather restricted in terms of the decision making and corrective actions that can be taken – the project constraints tend to define both the courses of action that can be taken and the degree to which corrective steps can be made. However, when we manage each initiative as part of the overall portfolio we have a much broader set of possible actions open to us – it becomes acceptable to compromise the deliverables of an individual project as long as the likelihood of success for the entire portfolio is preserved.

Consider an example where a project is suffering from a number of major problems – it now appears that it will be three months late delivering and will only deliver $200,000 in revenue for the year instead of the $500,000 that was planned for. From a project management perspective this will likely become a damage limitation exercise – focus on delivering the functionality as quickly as possible with minimal additional cost (dollars, resources, increased risk, reduced quality) so that the revenue ‘miss’ is minimized.

From a portfolio standpoint we look at this project very differently. Our focus is on the $300,000 revenue shortfall that the organization is facing because that is the problem from a goals and objectives standpoint, the fact that the project is experiencing problems is secondary. This may sound like an odd statement, but if portfolio management can make adjustments to other projects to make up the revenue loss then the project may not be a ‘problem’ at all. That revenue may come from another project delivering early, from scope being added to a project to give its deliverables greater revenue upside, or maybe even from a new initiative being approved. Portfolio management may go further – finding $500,000 in revenue and terminate the problem project completely, thus releasing resources, funds, risk tolerance, etc for other areas of the portfolio.

Those of you that come from project focused organizations may find this concept hard to accept, but think back to what we said about the portfolio right from the start – it exists to deliver the goals and objectives of the business, individual projects are of secondary importance.

**Implementing Integrated Portfolio Management**

It will be clear by this point that this is not a change that can happen overnight, it requires a commitment to the concept and an understanding of what is required within your organization to bridge the gap from the current situation to the desired end state of an integrated portfolio management approach. Every organization is different and the specific work will be unique to each situation, but there are some common areas of focus.

Firstly the commitment to portfolio level management has to be embraced by the organization. It requires an engaged executive sponsor, ideally at the ‘C’ level of the organization, and it requires the active support of all project execution areas and PMOs. There needs to be a recognition that this is more than simply a process change, rather it is a mindset change that needs to become part of the entire organizational culture from idea generation and refinement through to benefits realization and variance correction.

Cultural change doesn’t happen overnight and it will take time for the changes to be accepted and welcomed. To help with this acceptance there needs to be a phased implementation of portfolio level processes that will allow for the benefits of the approach to be recognized without driving excessive disruption into the existing projects (which will simply make things worse by diverting people from project execution). For some organizations that may mean starting with the development of proposals ahead of the next round of annual planning, for others it may be the central tracking and reporting of actual benefits vs. planned. In many cases the initial focus will be on creating a portfolio manager function that is more than simply
consolidated reporting and instead focuses on providing PMs with decision support and issue resolution services that focus on preserving the portfolio goals rather than simply minimizing the variance to plan of individual projects.

Regardless of the approach that you take there will likely be a need for a comprehensive process overhaul as well as a shift to a top down strategic portfolio methodology instead of a bottom up tactical process. Project level processes cannot simply be applied at the portfolio level, separate portfolio level processes are needed that can integrate with the project execution methodology, annual planning processes, any benefits tracking approaches that the organization has, etc.

These processes should be developed in collaboration with all project execution areas within the organization and should actively engage PMO staff and PMs. There also needs to be an understanding that the processes will necessarily change and evolve over time as the organization gains a better understanding of what it needs and as the inefficiencies and shortfalls of the processes are surfaced. The need for a repeated ‘develop – test – implement – measure – improve’ cycle should be clear.

It’s also important to try and ensure that the portfolio level management approach is applied across the entire organization – the integrated element that we referred to earlier. There will always be pockets of resistance and individuals who claim that their department or PMO is different in some way and cannot fit a standard model, but we are compromising the integrity and effectiveness of the entire approach if we allow for these exceptions – it’s like building a house and not bothering with the foundation under one corner!

Many organizations will be tempted to implement one of the many project portfolio management (PPM) solutions to help create a framework for the processes and approach. The advance of these tools has been incredible in recent years but it is a mistake to use them as a foundation for the processes. Instead the organization should develop its process framework and then look at how a tool suite can support the individual process steps – collaboration and workflow functionality for developing ideas and preparing business cases, reporting and analysis functionality for monitoring progress, etc.

It’s also important to make decisions around these tools from the top of the organization. To deliver the expected benefits the strategic needs must be understood and the tool selected based on its ability to meet those needs – portfolio management is a strategic top level approach and the tool needs to be developed and implemented in the same way (although implementation also needs to consider efficient and effective data capture at the front line). Most importantly the tool must be able to grow and evolve with the maturity and capability of the organization – simple enough to allow for rapid deployment and support while being powerful enough to not be left behind as the organization embraces portfolio management across all functions, departments and portfolio lifecycle elements.

**Conclusion**

The concept of portfolio management is not a new one, but many organizations have found that they are not seeing the benefits from their investment in it that they were expecting. In many cases this is because the implementation has had unclear and / or unrealistic goals, a lack of an engaged executive sponsor, and a lack of commitment from the organization to make it real. As a result portfolio management has become little more than an underutilized tool with some centralized reporting.

Implementing an integrated portfolio management approach is nothing more than a project – a complex project to be sure, but just a project. It needs goals and objectives, a sponsor, a scope, requirements, plans, a team of resources to implement and ways to measure progress during the initiative and success afterwards. If any of these has been missing from your attempts to implement portfolio management is it really any surprise that it has been unsuccessful?

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