

RG Perspective

Ten Critical Steps

for Successful Project Portfolio Management



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Right now, across all sectors of the economy, organizations are grappling with diminished growth rates, tighter budgets, and intense pressure to manage their investment dollars more effectively.

In this atmosphere of increasing regulatory requirements and corporate accountability, organizations struggle to make the best decisions at the right time every day. However, this can be daunting. Best practice organizations are implementing Project Portfolio Management to make better and more informed decisions on a recurring basis. Project Portfolio Management provides a dynamic decision-making process for assessing value, prioritizing projects, and allocating resources to meet key organizational objectives across the enterprise. The end result is the ability to select the best mix of projects that maximizes returns and minimizes risks for your organization.

Why Project Portfolio Management?

The benefits of Project Portfolio Management are becoming more apparent in this age of smart investment and strategic decision-making. "Portfolio Management elevates information technology discussion to business terms. In the end, there are business projects and very few, if any, IT projects." according to Doug Lynn of META Group. Project Portfolio Management instills program management discipline into your organization while helping build consensus for difficult decisions. However, the greatest value of this process is improving your bottom line through the elimination of draining projects that do not contribute to the health of your enterprise.

Instills Program Management Discipline

Organizations have been losing money on failed projects for years. According to Firoz Dosani, VP of Mercer Management, "When the true costs are added up, as many as 80% of technology projects actually cost more money than they return." In addition, Gartner Group reports that over 60% of IT projects fail to meet basic design or business objectives. This is usually due to cost overruns and overestimation of project benefits—basic program management issues. In order to effectively implement Project Portfolio Management, an organization needs to come to grips with its basic program management infrastructure, instilling discipline into the organization and forcing the control of program costs, resources and scope.

Builds Consensus

Besides introducing program management discipline across the enterprise, Project Portfolio Management helps build consensus in an organization. In many organizations, decision-making is not an easy task for senior management. The management team usually lacks the data, tools and processes needed to facilitate the discussion and resolution of difficult decisions. A standardized and strategic process will help individuals throughout the organization understand how and why certain decisions are being made—and will also ferret out "pet projects" that do not contribute to the organization's strategic objectives.

Adds to the Bottom Line

The days of un-scrutinized, liberal corporate and government spending are over. Today's environment of accountability and governance will not allow continued IT spending with few prospects of measurable benefit or return. Project Portfolio Management techniques save money by

ensuring those projects that get funded also get results. Gartner Group reports that organizations utilizing a strategic project prioritization process will more effectively address business needs and reduce failed projects by 25% in 2003, thereby improving the bottom line. A survey by CIO Magazine discovered that companies achieving Project Portfolio Management excellence were experiencing a 19% higher revenue growth rate than those having an informal approach to managing multiple projects across the organization. In short, effective Project Portfolio Management yields results.

Critical Success Factors

The application of Project Portfolio Management can be daunting—but not impossible. Ten critical success factors will help your organization derive the most value from this strategic management process. These factors all contribute to the effective selection, control and evaluation of projects under a Portfolio Management doctrine.

1. Senior Management Commitment & Consensus

Senior management's commitment to the Project Portfolio Management process is paramount to success. Because the Project Portfolio Management process introduces a strategic decision-making approach, it must start at the top in order to extend throughout the organization. Leaders must understand the entire process and commit to decision-making based upon that process. As this decision-making process is pushed down to the lower levels of an organization, it begins to change the culture and impact the way of doing business. Without senior management commitment and consensus, the process will not work. Actions, such as data collection, that contribute to the success of Project Portfolio

Management will not be enacted if not required by senior management.

Another critical argument for senior management's commitment is their over-arching knowledge of the organization—where it is going and how it works. This group of people needs to understand how decisions impact the enterprise. The data collected during the Project Portfolio Management process enables senior management to be more effective because they are able to make fact-based decisions. Data-driven decisions empower senior management with their stakeholders – governance boards or shareholders. If decisions are not made according to data, they are vulnerable to questions and review by outsiders. However, senior management need not be a slave to the data. The data may indicate that goals are not properly aligned or balanced. Wherever the data point, it is still up to senior management to analyze and interpret according to their knowledge of the company and industry. This is the true value of senior management's participation in the Project Portfolio Management process

2. Communication of Strategic Objectives

Communication is at the heart of successful Project Portfolio Management. Strategic objectives must be defined and communicated so that everyone across the organization understands the corporate goals and decision-making process. Understanding the strategy at all levels of the organization is essential because even simple and seemingly non-strategic decisions are affected. For example, the decision to purchase an Oracle-based database competes with the organizational strategy to standardize on Sybase. Or, the implementation of an overtime-heavy work week competes with the organizational strategy to streamline costs.

Managers at all levels of the organization need to use strategic objectives as a guide for ongoing operational decisions. Doug Lynn attests that Portfolio Management is proving to be “the most compelling IT value communication tool.” Clear communication of strategic objectives helps define the expected outcomes and answers. What will strategy drive you to do? What changes do you want within your organization? Answers to these questions will drive new initiatives that align with the strategy.

3. Strategically aligned investment selection

Whereas the communication of strategic objectives builds an operating framework, the alignment of investment selection puts the framework to use. Every decision in the organization needs to be measured against the stated strategy. Alignment will occur naturally as new initiatives are evaluated within the strategic context. For example, if an organization standardizes on Sybase, an informed manager will not approve the purchase of non-Sybase applications. Or, overtime will be closely scrutinized in an organization trying to streamline costs. In effect, strategy determines investments and actions across the organization. Strategy-friendly projects will gain easy approval and those that are not aligned will receive increased scrutiny—either of the project or (in rare cases where the project is especially compelling) of the strategy.

4. Institutionalized investment management process

Organizational cultures determine who makes decisions and how they make them. However, this informal authority channel is not always easily understood or navigated within an enterprise. An institutionalized The application of Project Portfolio Management can be daunting –but not impossible.

There are ten critical success factors that will help your organization derive the most value from this strategic management process. Better IT investment decisions begin with a good model.

Strong leaders who delegate decisions to their staff or other parties force the organization to operate on its own. An institutionalized management process is a sophisticated way in which an organization learns and refines itself through constant evaluation of strategic investments.

5. Governance framework aligned with enterprise decision-making

The investment process evolves into a governance framework whereby all strategic decisions throughout the organization are made in the same manner. Each level within the organization will have its own threshold that limits its authority (such as budget approval, resource commitments, and the ability to impact other business units within the organization). A common governance framework ensures that decisions are made the same way up and down the organization and that there is an appropriate mix of people making decisions. For example, the marketing department makes decisions regarding marketing activities; the Comptroller makes decisions regarding daily financial management; and, Human Resources makes decisions for how to administer employee benefits.

A governance framework naturally follows from the implementation of an institutionalized investment management process. Whereas the investment management process is formally created and organized, the governance framework will evolve within the existing operating culture.

6. Integrated program/project management discipline

All organizations can benefit from the adoption of basic program/project management discipline to constantly evaluate project health, such as cost and schedule. However, the implementation of an integrated discipline takes the basic project management skills one step further. This operating principle provides visibility into the health of ongoing projects and the potential impact of planned projects—and ensures that all projects are evaluated in the same manner. Without this enterprise-wide visibility, managers are hindered in their ability to make necessary decisions. For example, a healthy project may need to be shut down or delayed because it is utilizing resources that are required for a more strategic project that affects organizational viability. The key concept is the requirement that all projects be monitored. Milestones and costs need to be consistently reviewed and controlled to ensure the organization is getting value out of its investments.

7. Consistent risk & performance measurement

Building upon the implementation of an integrated program/project management discipline, an organization needs to measure the risk and performance of projects across the enterprise. As a project progresses and more money is invested, an organization learns more about its overall risk. As risk changes, the project's potential return may change. Throughout the project life cycle, risks should be mitigated and avoided. If, for example, a high risk project remains high risk, and its probability of return is not compelling, the project may need to be cancelled. This data needs to be constantly fed back into the evaluation process to ensure the project continues to fall within strategic guidelines. The goal is to monitor and mitigate

risks in order to validate continued financial and resource investment.

8. Portfolio reviews to support investment priority realignment

A formal review board needs to be established to review all enterprise projects—IT and non-IT, strategic and non-strategic. This review board should be composed of senior leaders and strategic line managers who meet on a regular basis to evaluate major investments and their strategic role in the ongoing success of the organization. The role of this group is to re-align projects as priorities change. These boards are the realization of a governance framework. As the environment (technology, market, culture) changes, investments need to be re-prioritized. A review board allows the organization to institute change as external and internal factors change.

9. Effective balance of investments

Once the Project Portfolio Management process has been established, senior management must ensure that the organization has an effective balance of investments. Projects should no longer be assessed according to their bottom-line financial impact. Each project needs to be evaluated according to its health, cost and strategic contribution to the organization over the short and long term. The ability to determine the appropriate balance is specific to each organization and is made by the review board. A technology start-up has different requirements than an established retail clothing manufacturer. A start-up will need more projects that demonstrate short term return whereas an established company is more likely able to tolerate more high risk, long term investments.

The data from Project Portfolio Management can determine how investments should be made throughout the enterprise. Are there enough short term, low risk projects that promote organizational

viability? Are there long-term, high risk projects that foster organizational innovation? Are projects spread across the organization? It is important for senior management to balance today's needs against the future requirements.

10. Strategic focus – transforming strategy into operational excellence

The business impact of Portfolio Management is measurable. "Good Project Portfolio Management process discipline will ensure repeatable, quality decision-making" according to Lynn. Effective Project Portfolio Management needs to be a living process within an organization. This process requires the formal and informal culture to be committed to organizational goals and objectives. This commitment will breed a strategic focus within daily operations. The culmination of Project Portfolio Management is the ability to infuse strategy into all investment decisions across the enterprise.

Portfolio Management. In fact, there are probably very few organizations that have the ability to adhere to all ten factors. But this does not mean that the process will fail. Project Portfolio Management can still be achieved as long as senior management commits to the process.

Portfolio Management is the key to an integrated management process. It serves as a "holistic effort that includes tools, techniques, and discipline to improve IT/business investment decisions," according to Lynn. When implemented correctly, Project Portfolio Management infuses strategy in the organization, focuses resources on the most important projects, and ensures that the right things get done.

Value of Critical Success Factors

Does your organization have to implement all ten of these factors? No, but the more success factors that your organization adopts, the more value your organization will reap from the benefits of Project Portfolio Management.