

Portfolio Management



A portfolio is a collection of projects and/or programs and other work that is grouped together to facilitate the effective selection and management of that work to meet strategic business objectives. The projects or programs of the portfolio may be mutually independent or directly related. An organisation may manage its projects and programs through a structure of several portfolios or in a single portfolio. Each organisation has at least one portfolio that consists of a set of current projects and programs and planned future initiatives.

Project portfolio management provides the capability to effectively select, prioritise, and oversight the organisations project and programs to optimise value despite shifting business, technology, and market conditions. In managing and controlling the project portfolio, decisions involve re-visiting each project’s critical success factors, including

resource availability and the continued validity of the business case, with the business sponsors.

The selected components both reflect and affect the strategic goals of the organisation¹; that is to say, the portfolio represents the organization’s set of active programs, projects, sub-portfolios, and other work at a specific point in time.



(Diagram adapted from «The Project Age: Working Paper No. 1», Claude Emond, Renee Thibault, Hugues Bouchard)

Portfolio management is also a key part of the organisations overall governance structures. Organisational governance² occurs at different decision-making levels of the organisation to support specific goals and objectives defined through the organisation’s strategic planning process. Strategic planning defines the means of attaining the goals through either operations (ongoing organisational activities) or temporary endeavours (projects) and also defines how they are governed. Whether managing operations or managing projects, all governance levels are linked together to ensure that each organisational action is ultimately aligned with organisational strategy.

Portfolio Balancing

The project portfolio should be optimised for the current economic climate, business strategy, emerging competitive forces and a host of other imperatives that could influence the organisations overall investment strategy. Most of the risks and rewards associated with any project or program are determined long before

¹ For more on alignment see: http://www.mosaicprojects.com.au/WhitePapers/WP1042_Outputs_Outcomes_Benefits.pdf

² For more on Governance see: http://www.mosaicprojects.com.au/WhitePapers/WP1033_Governance.pdf

the project/program manager is appointed; if these decisions are wrong (or non-existent) project and program management cannot resolve the problem. The role of effective project management is to deliver a realistic and achievable outcome efficiently; if the parameters for the project are unrealistic in the first place, the best project management can do is stop the situation deteriorating further!

The objective of portfolio risk management is to accept the right amount of risk commensurate with the anticipated reward to deliver the optimum outcomes for the organization in the short, medium and longer term. Projects and programs need to be selected based on a range of factors; some high risk high reward programs that may create the 'organisation of tomorrow', some operational projects needed to 'keep the lights on' and some 'safe' projects with a satisfactory ROI and payback period that improve the current business³.

Portfolio risk management differs from project and program risk management as in the right circumstances at the portfolio level the organization may choose to actively embrace appropriate risks in anticipation of high rewards; eg, investing in new, unproven technology with a view to being 'first in the market' in anticipation of highly profitable sales; accepted risks include recognising the technology may not work, and/or the market may not accept the new product, alternatively, the product may be highly successful and profitable. It is impossible to create a risk free environment and most projects carry a significant amount of risk that should be actively managed. Attempts to avoid 'all risk' are always counterproductive and lead to organisational obsolescence.

The approval processes can proactively assist in managing the risks, portfolio approvals may be for the component as a whole or conditional. Conditional approvals may be based on the component successfully passing one or more stage gate reviews, or completing other processes such as a 'feasibility' study'. Some of the options include:

- A project may be approved for a stage of the development such as a feasibility study with the project deliverable being the report, and based on the report a new project proposed for the next phase in the development.
- The overall component may be approved subject to the component passing specific reviews or stage gates. The 'gate reviews' may be undertaken by the portfolio management team or other governance bodies.
- The component may be approved as a program with responsibility for framing projects within the program delegates to the program management team (with or without external reviews).
- The component may simply be approved and included in the routine portfolio review process.

Balance is also important, too many projects and programs in any one area will diminish the long term growth of the organisation and the current selection of projects and programs should be rigorously reviewed on a routine basis culling projects or programs that no longer contribute value and redirecting resources to more valuable work. Some of the factors that limit the optimisation of the portfolio, and make it very difficult to divest under performing projects and programs in order to divert their funds and resources to higher valued projects are.

1. Governance processes that permit individual business units and departments to spend budgets 'under the radar', tying up resources that could be better used elsewhere.
2. Projects which are difficult to stop because they have significant upfront costs with few early or intermediate benefits making it difficult to kill a project before it has delivered something - sunk costs should not influence decisions but frequently do because of the way people's minds work.
3. Approval processes that sanction projects individually instead of looking at the collective portfolio for the best use of organization resources.

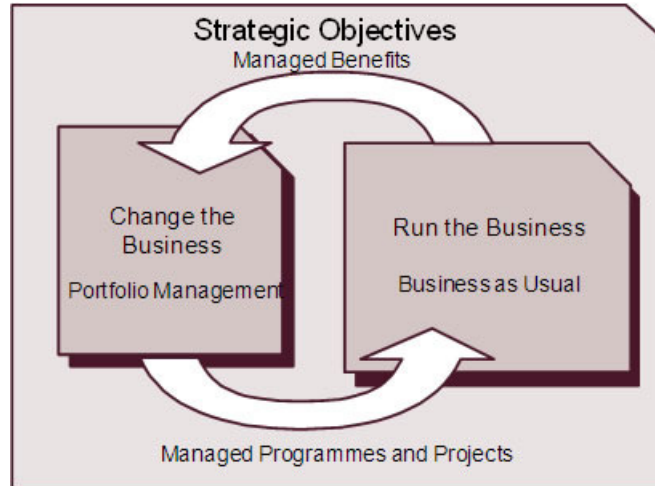
³ For more on selection processes see: www.mosaicprojects.com.au/WhitePapers/WP1062_Ranking-Requirements.pdf

4. Few, if any, ongoing structured gateway reviews to assess project performance and its alignment with the current objectives of the organisation.

Balancing these factors with the need to invest in changes that have the potential to deliver the maximum value to the organisation is the key challenge facing portfolio managers.

OGC – Management of Portfolios

The UK based OGC have recently released their Management of Portfolios⁴ (MoP) guidance. OGC define Portfolio Management as *a co-ordinated collection of strategic processes and decisions that together enable the most effective balance of organizational change and Business As Usual.*



© Crown Copyright 2008.

Within the OGC framework, the Portfolio, Program and Project Office (P3O⁵) supports the portfolio function in addition to providing assurance for the projects and programmes they oversee⁶.

MoP covers a wider spectrum of organisational governance than either the PMI *Standard for Portfolio Management*⁷ or this set of White Papers suggests is appropriate⁸. MoP enables investment in the right, well implemented change initiatives including ensuring that:

- The programmes and projects undertaken are prioritized in terms of their contribution to strategic objectives and overall level of risk
- Programmes and projects are managed consistently to ensure efficient and effective delivery
- Benefits realization is maximised to provide the greatest return (in terms of strategic contribution and efficiency savings) from the investment made.

⁴ For more on MoP see: <http://www.mop-officialsite.com/>

⁵ For more on P3O see: <http://www.p3o-officialsite.com/>

⁶ For more on PMOs see: http://www.mosaicprojects.com.au/WhitePapers/WP1034_PMOs.pdf

⁷ For more on the PMI *Standard for Portfolio Management* see: http://www.mosaicprojects.com.au/Book_Sales.html#PMI

⁸ For more on the overall structure of the various processes for 'managing project management', see: http://www.mosaicprojects.com.au/WhitePapers/WP1074_PPP_Taxonomy.pdf