PROJECT PORTFOLIO MANAGEMENT: WHERE THEORY HITS THE ROAD

v2006.1

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“Smart deployment means knowing where and when to invest: which technology expenditures will generate competitive advantage.”\(^1\)

\(^1\) *McKinsey Quarterly*, 2003, number 2, p1
Project Portfolio Management: Where Theory Hits the Road

Presented by Keith Farndale

Outline

• Introduction
• Project Portfolio Management processes
• Stakeholders and roles
• Wrap-Up
Learning Objectives

• You will be able to...
• Outline the framework of Project Portfolio Management (PPM), as defined by PMI®
• Discuss the application of PPM by organizations, from available applied research
• Return to your organization able and willing to influence your organization’s PPM practices

Introduction
Definitions

• Portfolio: “A collection of projects or programs and other work that are grouped together to facilitate effective management of that work to meet strategic business objectives”

• Project Portfolio Management: “The centralized management of one or more portfolios, which includes identifying, prioritizing, authorizing, managing and controlling projects, programs, and other related work, to achieve specific strategic business objectives”

Definitions

• Program: “A group of related projects managed in a coordinated way to obtain benefits and control not available from managing them individually. Programs may include elements of related work outside of the scope of the discrete projects.

• Program Management: “The centralized coordinated management of a program to achieve the program’s strategic objectives and benefits”
Portfolio, Programs, Projects...

Project Portfolio Management

- Doing projects right is project management
- Doing the right projects is project portfolio management
The Organizational Context

Why Use PPM?

1. Maximize the value of the portfolio for a given resource expenditure
   - e.g. NPV, ECV, scoring models, etc
2. Balance the mix of projects
   - e.g. by size, duration risk, markets, etc
   - e.g. bubble diagrams, other charts
Why Use PPM?

- 3. Strategically align the portfolio
  - Reflects the business’s strategy
  - Bottom-up or top-down

- 4. Right number of projects
  - For resources available
  - Avoid “pipeline gridlock”

Why is it Difficult?

Deals with the future of the project - uncertainties
The decision environment is dynamic
Projects are at different stages of completion
Resources are limited
Portfolio Management: History

- Financial portfolio management initiated in 1952
- Project Portfolio Mgt was first addressed in 1959
- New product development led the way into modern project portfolio management
  - The most prominent theorist / practitioner is Dr Robert Cooper, McMaster University (We'll quote him frequently)
- OPM3 included a model of PPM, 2003
- The Standard for Portfolio Management, 2006

Portfolio Management in Finance

- Article on “Portfolio Selection” by Markowitz, 1952
- Part of his Capital Asset Pricing Model
- The art and science of making decisions about investment mix and policy, matching investments to objectives, asset allocation, and balancing risk vs. performance.
- A diversified portfolio reduces risk
Portfolio Management in New Product Development: Bubble Diagram

Circle size = resources (annual)

High

Reward (NPV)

Bread and Butter

Pearls

Oysters

White Elephants

Low
PPM Processes

PPM “Process Groups”

Aligning → Monitoring & Controlling

1. Identification
2. Categorization
3. Evaluation
4. Selection
5. Prioritization
6. Portfolio Balancing
7. Authorization

8. Portfolio Review & Reporting
9. Strategic Change

The Standard for Portfolio Management


1. Identification

• Documenting and assembling, for further decision making, the inventory of ongoing and proposed new “components” as potential components for categorization

• “Component” may be a business case, a project, a program or a portfolio

Identification - Inputs

• Strategic Plan
  • Vision statement
  • Mission statement
  • Long-term goals and objectives, and how to achieve them

• Existing inventory of components
  • Some may be already authorized and underway
  • Some are new suggestions
  • With “descriptors”
Identification - Tools & Techniques

- Document the components into the inventory list
- Filter out those proposed components which are...
  - Insufficiently documented, or
  - Do not fit the portfolio by size or type

Identification - Outputs

- List of components
- Descriptors for each component
- Rejected components
2. Categorization

- Grouping potential components into categories to facilitate further decision-making
- E.g. by type -- regulatory, cost savings, risk reduction, or revenue enhancement

3. Evaluation

- Scoring specific potential components using key indicators and their related weighted criteria for comparison purpose for further decision-making
- See attached list of suggested criteria
POSSIBLE CRITERIA FOR EVALUATION

Business criteria
Strategic Alignment
Productivity
Process improvement
Competitive advantage
Business impact
Employee satisfaction
Customer satisfaction
Intellectual property
Impact of not understanding the project

Financial benefits criteria
Revenue growth
Cost savings
Cost avoidance
Internal Rate of Return (IRR)
Net Present Value (NPV)
Return on Investment (ROI)
Payback period
Cost
Cash flow generation.

Risk-related criteria
Business risks
Technology risks
Project management risks
Implementation risks
Market acceptance risks
Public relation risks
Brand image risks

Legal/Regulatory compliance criteria

Human Resource related criteria
Specific competency
Employee satisfaction
Resources availability
HR capacity
HR capacity to integrate the solution
Impact on working conditions

Marketing criteria
Market impact
Probability of success
Time to market
Impact on existing product lines
Estimated product life

Technical criteria
Architectural alignment
Information delivery
Success probability
System RAS
   Reliability
   Availability
   Supportability
Conformity to standards

---

2 The Standard for Portfolio Management
Appendix D, 3.2.1.2
### Sample Evaluation Matrix With Weighted Scores

<table>
<thead>
<tr>
<th>Criteria</th>
<th>Weight</th>
<th>Low</th>
<th>Medium</th>
<th>High</th>
<th>Score</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Strategic alignment</td>
<td>30%</td>
<td>0</td>
<td>5</td>
<td>10</td>
<td>10</td>
<td>3</td>
</tr>
<tr>
<td>Net present value</td>
<td>20%</td>
<td>0</td>
<td>5</td>
<td>10</td>
<td>10</td>
<td>2</td>
</tr>
<tr>
<td>Market impact</td>
<td>20%</td>
<td>0</td>
<td>5</td>
<td>10</td>
<td>5</td>
<td>1</td>
</tr>
<tr>
<td>Riskiness</td>
<td>20%</td>
<td>5</td>
<td>5</td>
<td>0</td>
<td>10</td>
<td>2</td>
</tr>
<tr>
<td>CSR</td>
<td>5%</td>
<td>0</td>
<td>5</td>
<td>10</td>
<td>5</td>
<td>0.25</td>
</tr>
<tr>
<td>Employee satisfaction</td>
<td>5%</td>
<td>0</td>
<td>5</td>
<td>10</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td><strong>TOTAL SCORE</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td><strong>8.25</strong></td>
</tr>
</tbody>
</table>

### Graphical Example: Using 2 Sets of Criteria Scores

```
FINANCIAL BENEFIT
HIGH  MEDIUM  LOW

RISK
HIGH  MED  LOW

GO
CAUTION
STOP
```

The Standard for Portfolio Management Appendix D 3.2.1.3.2
WORKSHOP: EVALUATION

Professional Concepts Inc, a provider of management training and consulting. As you would expect from consultants, they have developed vision and mission statements:

Vision:
To be first choice in helping clients thrive in selected business areas, through training, consulting, and building partnerships"

Mission:
We enhance clients’ capabilities in selected business areas, be developing and delivering training supported with consulting.

Professional Concepts has 4 lines of business -- Project Management (PM) training, Business Analysis (BA) training, IT Service Management (ITIL) training, and it has a new business unit in South Africa. Professional Concepts thinks of their current lines of business, and the business unit as components of a portfolio. Occasionally it will add a line of business to the portfolio.

Question: Please think of some criteria that Professional Concepts can use to evaluate possible new lines of business.
4. Selection

- Deciding on the components to be put forward from evaluation to prioritization based on their evaluation scores

Selection

- Consider:
  - People capacity
  - Financial capacity
  - Asset capacity
- Some may be recommended for rejection
- May be iterative with Prioritization process
5. Prioritization

• Ranking the selected components (within each category) based on their evaluation scores and other management considerations.

Prioritization

• Similar to the methods in Evaluation, but now with a way to provide a cut-off.
Prioritization

- Scoring models
  - Research indicates these work well
- Pairwise ranking
  - Analytical Hierarchy Process (AHP)
- Financial models
  - Often start with poor estimates of future costs & benefits
  - Ignores strategic fit
- Then we can recommend as follows:
  - "Must do" (mandatory, e.g. regulatory)
  - "Go" (funded active projects)
  - "Hold" (good projects, but unfunded)
  - "Dead"

Prioritization Using Scoring Models

- Scores can be based on criteria such as...
- Financial reward
- Business strategy fit
  - And strategic leverage
- Probability of success
  - Technical and commercial
- Each criterion can be weighted
- See example on page attached
### A PROJECT SELECTION MODEL

#### Table 1. A Project Selection Model

<table>
<thead>
<tr>
<th>Program/project evaluation criteria</th>
<th>Criteria weights</th>
<th>Very good (8)</th>
<th>Good (6)</th>
<th>Fair (4)</th>
<th>Poor (0)</th>
<th>Expected level weight</th>
<th>Expected weighted score</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fit with mission</td>
<td>Product</td>
<td>10</td>
<td>1.0</td>
<td></td>
<td></td>
<td>8.0</td>
<td>80</td>
</tr>
<tr>
<td></td>
<td>Market</td>
<td>10</td>
<td>1.0</td>
<td></td>
<td></td>
<td>8.0</td>
<td>80</td>
</tr>
<tr>
<td>Consistency with objectives</td>
<td>ROI</td>
<td>10</td>
<td>0.2</td>
<td>0.6</td>
<td>0.2</td>
<td>6.0</td>
<td>60</td>
</tr>
<tr>
<td></td>
<td>Dividends</td>
<td>5</td>
<td>0.2</td>
<td>0.6</td>
<td>0.2</td>
<td>4.0</td>
<td>20</td>
</tr>
<tr>
<td></td>
<td>Image</td>
<td>5</td>
<td>0.8</td>
<td>0.2</td>
<td></td>
<td>3.6</td>
<td>18</td>
</tr>
<tr>
<td>Consistency with strategy</td>
<td>Stage 1</td>
<td>10</td>
<td></td>
<td></td>
<td>1.0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td></td>
<td>Stage 2</td>
<td>7</td>
<td>1.0</td>
<td></td>
<td></td>
<td>8.0</td>
<td>56</td>
</tr>
<tr>
<td></td>
<td>Stage 3</td>
<td>3</td>
<td></td>
<td></td>
<td>1.0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Contribution to goals</td>
<td>Goal A</td>
<td>8</td>
<td></td>
<td></td>
<td>1.0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td></td>
<td>Goal B</td>
<td>6</td>
<td>0.8</td>
<td>0.2</td>
<td></td>
<td>7.6</td>
<td>45.6</td>
</tr>
<tr>
<td></td>
<td>Goal C</td>
<td>4</td>
<td>0.8</td>
<td>0.2</td>
<td></td>
<td>5.6</td>
<td>22.4</td>
</tr>
<tr>
<td></td>
<td>Goal D</td>
<td>2</td>
<td></td>
<td></td>
<td>1.0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Corporate strength base</td>
<td>10</td>
<td>0.8</td>
<td>0.2</td>
<td></td>
<td></td>
<td>1.6</td>
<td>16</td>
</tr>
<tr>
<td>Corporate weakness avoidance</td>
<td>10</td>
<td>0.2</td>
<td>0.8</td>
<td></td>
<td></td>
<td>0.4</td>
<td>4</td>
</tr>
<tr>
<td>Comparative advantage level</td>
<td>10</td>
<td>0.7</td>
<td>0.3</td>
<td></td>
<td></td>
<td>7.4</td>
<td>74</td>
</tr>
<tr>
<td>Internal consistency level</td>
<td>10</td>
<td>1.0</td>
<td></td>
<td></td>
<td></td>
<td>8.0</td>
<td>80</td>
</tr>
<tr>
<td>Risk level acceptability</td>
<td>10</td>
<td>0.7</td>
<td>0.3</td>
<td></td>
<td></td>
<td>1.4</td>
<td>14</td>
</tr>
<tr>
<td>Policy guideline consistency</td>
<td>10</td>
<td>1.0</td>
<td></td>
<td></td>
<td></td>
<td>4.0</td>
<td>40</td>
</tr>
</tbody>
</table>

Total score: 610

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Prioritization Example: Using a Scoring Model

• See next slide
• You have scored each project against 6 criteria, equally weighted
• “Project Attractiveness Score” = average of the 6 scores x 100
• Choose top-ranked projects, until your “full-time equivalents” are fully booked

<table>
<thead>
<tr>
<th>Project</th>
<th>Leader</th>
<th>Strat Fit</th>
<th>Prod Adv</th>
<th>Market Attract</th>
<th>Core Comp</th>
<th>Tech Feasib</th>
<th>Reward</th>
<th>Project Attract Score</th>
<th>People FTE</th>
<th>Cum FTE</th>
<th>Status</th>
</tr>
</thead>
<tbody>
<tr>
<td>Epsilon</td>
<td>Peters</td>
<td>9</td>
<td>9</td>
<td>10</td>
<td>10</td>
<td>9</td>
<td>9</td>
<td>93.3</td>
<td>20</td>
<td>20</td>
<td>Active</td>
</tr>
<tr>
<td>Gamma</td>
<td>Cooper</td>
<td>10</td>
<td>10</td>
<td>7</td>
<td>7</td>
<td>7</td>
<td>7</td>
<td>80.0</td>
<td>20</td>
<td>40</td>
<td>Active</td>
</tr>
<tr>
<td>Alpha</td>
<td>Smith</td>
<td>8</td>
<td>7</td>
<td>7</td>
<td>8</td>
<td>8</td>
<td>9</td>
<td>75.0</td>
<td>15</td>
<td>55</td>
<td>Active</td>
</tr>
<tr>
<td>Delta</td>
<td>Scott</td>
<td>7</td>
<td>7</td>
<td>9</td>
<td>9</td>
<td>8</td>
<td>5</td>
<td>74.0</td>
<td>12</td>
<td>67</td>
<td>Active</td>
</tr>
<tr>
<td>Beta</td>
<td>Jones</td>
<td>7</td>
<td>7</td>
<td>6</td>
<td>6</td>
<td>6</td>
<td>6</td>
<td>66.7</td>
<td>20</td>
<td>87</td>
<td>HOLD</td>
</tr>
<tr>
<td>Omron</td>
<td>Baily</td>
<td>8</td>
<td>6</td>
<td>6</td>
<td>8</td>
<td>7</td>
<td>5</td>
<td>66.7</td>
<td>20</td>
<td>107</td>
<td>HOLD</td>
</tr>
</tbody>
</table>
Example: Using Pairwise Ranking

- See the next slide...
- In every cell, compare the two projects and show the preferred one
- Add “winners” horizontally, and rank the results
- (As a test, make sure the results are symmetrical about the diagonal)

<table>
<thead>
<tr>
<th>PROJECT ALPHA</th>
<th>A</th>
<th>A</th>
<th>A</th>
<th>A</th>
<th>4</th>
<th>1</th>
</tr>
</thead>
<tbody>
<tr>
<td>PROJECT BETA</td>
<td>A</td>
<td>C</td>
<td>B</td>
<td>B</td>
<td>2</td>
<td>3</td>
</tr>
<tr>
<td>PROJECT CHARLEY</td>
<td>A</td>
<td>C</td>
<td>C</td>
<td>C</td>
<td>3</td>
<td>2</td>
</tr>
<tr>
<td>PROJECT DELTA</td>
<td>A</td>
<td>B</td>
<td>C</td>
<td>D</td>
<td>1</td>
<td>4</td>
</tr>
<tr>
<td>PROJECT ECHO</td>
<td>A</td>
<td>B</td>
<td>C</td>
<td>D</td>
<td>0</td>
<td>5</td>
</tr>
</tbody>
</table>
Analytic Hierarchy Process (AHP)

- Using pairwise ranking with multiple criteria
- Wikipedia says: “The **Analytic Hierarchy Process** (AHP) is a mathematical decision making technique that allows consideration of both qualitative and quantitative aspects of decisions. It reduces complex decisions to a series of one-on-one comparisons, then synthesizes the results. Compared to other techniques like ranking or rating techniques, the AHP uses the human ability to compare single properties of alternatives. It not only helps decision makers choose the best alternative, but also provides a clear rationale for the choice.”

Example: Using a Financial Model

- See next slide
- PV = Present Value of product if a success
- Dev Cost = Development Cost Remaining
- Comm Cost = Commercialization Cost
- ECV = Expected Commercial Value
- ECV = Col 2 x Col 3 x Col 4 - Col 5 - Col 6
- Rank by ECV / Development Cost
- Say your development budget is $13
- Choose top-ranked projects, until budget used up
Example: Using a Financial Model

<table>
<thead>
<tr>
<th>1 Project Name</th>
<th>2 PV $million</th>
<th>3 Probability Tech Success</th>
<th>4 Probability Comm Success</th>
<th>5 Dev Cost $ million</th>
<th>6 Comm Cost $ million</th>
<th>7 ECV $ million</th>
<th>8 ECV/Dev</th>
<th>9 Rank &amp; Status</th>
</tr>
</thead>
<tbody>
<tr>
<td>Alpha</td>
<td>30</td>
<td>.80</td>
<td>.50</td>
<td>2</td>
<td>5</td>
<td>5.0</td>
<td>1.67</td>
<td>3 Go</td>
</tr>
<tr>
<td>Bravo</td>
<td>66.2</td>
<td>.50</td>
<td>.80</td>
<td>5</td>
<td>2</td>
<td>19.5</td>
<td>3.90</td>
<td>1 Go</td>
</tr>
<tr>
<td>Charlie</td>
<td>9.1</td>
<td>.75</td>
<td>.75</td>
<td>2</td>
<td>1</td>
<td>2.1</td>
<td>1.05</td>
<td>6 On Hold</td>
</tr>
<tr>
<td>Delta</td>
<td>3</td>
<td>1.00</td>
<td>1.00</td>
<td>1</td>
<td>0.5</td>
<td>1.5</td>
<td>1.50</td>
<td>5 On Hold</td>
</tr>
<tr>
<td>Echo</td>
<td>52.7</td>
<td>.60</td>
<td>.75</td>
<td>5</td>
<td>3</td>
<td>15.7</td>
<td>3.14</td>
<td>2 Go</td>
</tr>
<tr>
<td>Foxtrot</td>
<td>68.8</td>
<td>.50</td>
<td>.80</td>
<td>10</td>
<td>2</td>
<td>15.5</td>
<td>1.55</td>
<td>4 On Hold</td>
</tr>
</tbody>
</table>

Research Indicates...

- Research suggests that scoring models work well.
- Financial models often are based on poor estimates. They are useful, but are misleadingly “precise”
- See long list of methods attached
PROJECT SELECTION AND RESOURCE ALLOCATION METHODS

1. BENEFITS MEASUREMENT METHODS
(Comparing benefits v. costs)

Comparative Approaches
- Q-Sort
- Ordinal Ranking
- Normative Models
- Pair-wise Comparisons
- Interactive Group

Benefit Contribution Models
- Cost Benefit
- Risk Analysis
- Economic Return (NPV, IRR, ROI, EV)

Scoring Models
- Multiple Criteria
- Multiple Attribute Utility
- Analytical Hierarchy Process

Marketing Research
- Consumer Panels
- Focus Groups
- Perceptual Maps
- Preference Mapping

2. STRATEGIC PLANNING METHODS
(How much does it align with organization’s strategic goals and objectives)

Portfolio Maps (Bubble Diagrams)
Cluster Analysis
Cognitive Modeling
- Regression Models
- Decision Tree Diagramming
- Decision Process Models
- Expert Systems

3. OPTIMIZATION METHODS
(Mathematical calculation of maximum benefit)

Integer Programming
Linear Programming
Non-Linear Programming
- Goal Programming
- Dynamic Programming

4. AD HOC METHODS
Profiles
Interactive Selection
Top-Down Methodologies
Genius Awards
System Approaches

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Some of the methods that have been used over the years. From Dye and Pennypacker, *Project Portfolio Management*, p xiii
6. Portfolio Balancing

- Organizing the prioritized components into a component mix that has the best potential to collectively support and achieve strategic goals

Portfolio Balancing

- Allowing us to...
- Plan and allocate resources
- Align projects with strategic direction
- Choose balance of risk vs. return, etc
Graphical Representations

- Especially bubble diagrams
  - Represents 2 variables on the axes
  - Plus a 3rd variable in the bubble size
  - And the bubble colour can represent a category

Example: Risk-Reward Bubble Diagram

Circle size = resources (annual)
Other Bubble Diagram Criteria?

- The axes can be...
WORKSHOP: PORTFOLIO BALANCING

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Mission:
We enhance clients’ capabilities in selected business areas, be developing and delivering training supported with consulting.

Professional Concepts has 4 lines of business.

Project Management (PM) training, operating since 1994, is well established in a mature marketplace, and has no outstanding investment. Annual sales are stable at $800,000. Gross profit is stable at 30% of sales.

Business Analysis (BA) training started in 2005, is established in a growing market and has few risks associated with it, with a $75,000 investment outstanding. Current annual sales are $250,000, expected to grow to $400,000 in 2008. Gross profit is 48% of sales, but this is expected to grow to 60%.

ITIL training, since 2005, with a net investment of $10,000 outstanding. Sales are low so far, at $150,000, but this is likely to grow and stabilize at $200,000. Gross profit is currently 10% of sales, and this is also expected to grow to 60%.

Its new South African business unit, which started at the beginning of the current year, has a net investment of $100,000, has yet to generate a profit. Current year’s sales are $140,000, expected to grow to $600,000 by 2008. Gross profit is expected to be 80% of sales in 2008.

Professional Concepts thinks of its current lines of business as components of a portfolio. And it thinks of introducing a new line of business as a project component in the portfolio.

Question: For the existing lines of business, plot them on a bubble diagram. From the data above, you will have to decide what will be the horizontal axis, the vertical axis, and the bubble size.

Suggest a new line of business and plot it on the bubble diagram. For the new line of business and the estimated numbers, use your imagination!
WORKSHOP: BUBBLE DIAGRAM ANSWER
Research Indicates...

- Research shows that organizations are poor at balancing the portfolio

Cooper, et al

7. Authorization

- Approving, funding, and communicating the authorization for initiating work on a component included in the “balanced portfolio”
Authorization

- Decision made for a component, such as:
  - “Must do” (mandatory, e.g. regulatory)
  - “Go” (funded active projects)
  - “Hold” (good projects, but unfunded)
  - “Dead”
- Reminder: a “component” may be a ...

Authorization

- And with authorization goes...
  - Document and communicate performance expectations
  - Rolled-up milestones for deliverables and decision points
  - Rolled up cost baselines, cash flow curves, etc
Research Indicates...

- Research shows that organizations tend to proceed with more projects than they have the resources to support.

Reminder: PPM “Process Groups”

- Aligning
- Monitoring & Controlling

1. Identification
2. Categorization
3. Evaluation
4. Selection
5. Prioritization
6. Portfolio Balancing
7. Authorization
8. Portfolio Review & Reporting
9. Strategic Change
8. Portfolio Reporting & Review

• Using key indicators and reviewing the performance of the component mix by comparing actual with anticipated evolution, value, risk level, spending, and strategic alignment

Portfolio Reporting & Review

• What are some performance metrics?
Research Indicates...

- Companies which practice PPM are better at the “Aligning” processes than at the “Monitoring and Controlling” processes.

Portfolio Reporting and Review: Radar Graph
9. Strategic Change

- Any change in the strategic intentions and plans of the organization that can impact the contents of component definition, categories, filters, key indicators, and other decision-making parameters used for portfolio management
Stakeholders and Roles

Key Stakeholders

- Executive Manager
  - Provides strategic goals
- Portfolio Review Board
  - Dictates the framework and rules for portfolio decisions
  - Able to judge alignment of component with strategy
  - Evaluates portfolio performance, authorized to make decisions
**Key Stakeholders cont’d**

- **Portfolio Manager**
  - Manages the portfolio
  - Competence in...
    - Understanding strategy, how benefits are realized, program and project management, process development and improvement, general management skills

- **Sponsor**
  - Champions his or her components; provides the business case

- **Program Manager**
  - Manages the program
  - Aids in supplying the business case

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**Key Stakeholders cont’d**

- **Project Manager**
  - Manages the project
  - Provides performance indicators
  - Supplies a recovery plan if project in trouble

- **Program / Project Management Office**
  - Depends on organization
  - May be only coordination and support
  - May be responsible for projects / programs
  - May play a role in the administration of the PPM process
Wrap-Up

Review: PPM “Process Groups”

1. Identification
2. Categorization
3. Evaluation
4. Selection
5. Prioritization
6. Portfolio Balancing
7. Authorization
8. Portfolio Review & Reporting
9. Strategic Change
Research Indicates...

• A survey of organizations re PPM indicates:
  • PPM considered important
  • Greatest benefit is aligning projects to strategy
  • But still not good at killing projects, ...

Research Indicates...

• Or allocating resources optimally
• Low use of PPM software
• Large companies practice PPM at both the enterprise level and at the business unit level
• PPM most popular for IT and new product development
There Are PPM Maturity Models

- OPM3
- PM Solutions (see attached sheet)

PROJECT PORTFOLIO MANAGEMENT MATURITY MODEL 5

The following is one of six questions which forms part of the PPM maturity model of PM Solutions, used in a recent benchmarking study. In the study, only 4% of companies scored above a level of 3 in the overall calculation of maturity.

15. What is your organization’s level of maturity in Portfolio Governance?

☐ Level 1. There is no portfolio governance process in place. The evaluation of projects does not consider alignment with the organization’s vision, strategy, or objectives.

☐ Level 2. There is a process for creating and defining division portfolio review boards. Each portfolio review board is created and defined with board membership integrating both project management and business knowledge. Each portfolio review board operates according to written policies and procedures in the organization-specific project portfolio management process guide. Each project investment or proposal is considered by a portfolio review board based upon the alignment criteria. Strategic alignment may be considered in the evaluation of projects, but no strategic criteria have been developed.

☐ Level 3. Division portfolio review boards consolidate and report to an enterprise-wide portfolio review board. Criteria for aligning project investment decision-making authority are established and maintained. Specific strategic criteria, such as alignment with business strategy, customer need and satisfaction, and competitive advantage have been developed and projects are evaluated against these criteria to establish their acceptance in the portfolio.

☐ Level 4. Enterprise portfolio review board integrates lessons learned and processes portfolio status into current and future management project decision-making. Strategic criteria are being used to both accept the projects into the portfolio and in prioritizing the projects. Consideration is given to the various combinations of projects to maximize the value of the projects in relation to the strategic criteria. Project review boards review the fit of each project and combination of projects at each project review board meeting to ensure that any changes in vision, strategy, or objectives are evaluated with regard to the portfolio.

☐ Level 5. There is a process used to exploit management decision making to improve the value of project portfolio management processes. Baseline data are collected for the organization’s project portfolio management processes. External comparable best-in-class project portfolio management processes are identified and benchmarked. Improvements are made to the organization’s project portfolio management processes.

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5 PM Solutions’ PPM Maturity Model, as used in Project Portfolio Management Maturity: A Benchmark of Current Business Practices, Centre for Business Practices, 2005
Example of Portfolio Software: PacificEdge

Example of Portfolio Software: Primavera
Critical Success Factors

- Accepted process - usable, repeatable, consistent, corporate-wide, etc.
- Clearly understood decision criteria
- Flexible enough to allow differences in size, category, etc
  - Reminder: what are some category types
- Senior management committed
- Measure results
- Lessons learned
- Recognize that some projects should be terminated

The Standard for Portfolio Management: Next Revision

- Oct - Dec 2006: Now surveying practitioners to identify gaps in the current standard.
- Nov-Dec 2006: Call for volunteers for the revision team.
- 2007: Draft a revised standard
- Early 2008: 2nd ed. To be available as an “exposure draft”
- Contact Larry Goldsmith, lgoldsm@microsoft.com
Let’s Re-do The Quiz!

Quiz

Does PPM deal mainly with the ...

• (a) past
• (b) present, or
• (c) future?
Quiz

Which of the following can be a component of a portfolio:

• (a) a project
• (b) a business case
• (c) a portfolio
• (d) a program

Quiz

Oysters have …

• (a) high prob. of success, high potential reward
• (b) low prob. of success, high potential reward
• (c) high prob. of success, low potential reward
• (d) low prob. of success, low potential reward
Quiz

A portfolio is... A collection of projects or programs and other work managed in a coordinated way to obtain benefits and control not available from managing them individually

• True or False?

Quiz

In evaluating potential projects, research indicates that we should emphasize:

• (a) Models based on financial benefits seem more reliable
• (b) Subjective scoring models seem more reliable
• (c) Cannot decide
• (d) Who cares?
Appendix
Portfolio Reporting & Review

- ANSWER... Some performance metrics...
- Component schedule milestones
- Financial contribution
- Asset maintenance & development
- End user and stakeholder satisfaction
- Risk profile
BIBLIOGRAPHY


