WHITE PAPER

Why Corporate Leaders Should Make Project Portfolio Management a Priority

The Business Case for Project Portfolio Management

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Let's be blunt: No one would think of building an office complex by turning 100 different construction teams loose to build 100 different rooms, with no single blueprint or agreed-upon vision of the completed structure to go by.
Yet this is precisely the situation in which many large companies find themselves when managing projects. Companies routinely over-schedule their resources (human and otherwise), develop redundant projects and damage profitability by investing in non-strategic efforts that won't contribute to organizational health.

The evolution from project to portfolio. While most decisions on the project level are concerned with tactical issues, decision-making on the portfolio level is concerned with strategic issues. Today's emphasis on project portfolio management (PPM) is part of a trend towards systems thinking in organizational life. Instead of tweaking the parts (individual projects, departments or processes), systems theory encourages us to look first at the whole: the enterprise.

As organizations get more skilled at project management, their focus shifts from planning and execution to the front-end of the project management life cycle: how to choose the correct projects, prioritize them, track the prioritized projects and ensure adequate resources to staff the projects. This front-end work is PPM, and it is as necessary to projects as each project is to the portfolio.

Even projects that succeed in meeting the timeline and budget can be failures if the criteria doesn't complement the business realities faced by the company. For project management to live up to its promise, projects must be selected with care.

PPM includes fundamental practices for project prioritization and selection, and the balancing of an organization's portfolio to achieve the best results. The stakeholders for the process include financial management, senior business executives and, ultimately, the stockholders of the organization, as well as employees, vendors and customers. It is a holistic view of all the work taking place and work planned for in an organization.

In the past, organizations were typically satisfied with simply planning and controlling activities because most projects were large in scale, long in duration and existed as single entities. With the shift to knowledge-based wealth creation, companies have projects that involve all areas of the organization in some capacity and often involve people outside the organization as well, in the form of outsourcing suppliers, contract labor, consulting firms or public stakeholders.

How work is done has changed faster than the way companies are managed, causing a disconnect between the ability to manage projects on the project level and the ability to manage them collectively on the enterprise level. There are powerful arguments for eliminating this disconnect.

The Buck Stops Here. Although PPM has long been hidden within IT departments among project leaders, top-level corporate management is unable to easily hand off leadership. That's because choosing projects that create value is inherently a strategic activity. Research from the *Harvard Business Review*[1], has identified some of the issues as:

- How can we aggregate our opportunities into manageable strategic projects?
- Who is the overall process owner? Who will facilitate the analytical process?

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- How do we get top management and project leadership to buy in to the results?
- How will business and marketing units interact in the process? Should we use one cross-functional decision team for the whole portfolio, divide responsibilities by business or technical areas, or use a multilevel review structure?

These are not "project management" questions. This is a matter of making the management of the corporate portfolio of projects a strategic concern.

The Business Case

Without good PPM, companies are prone to a welter of problems. On the positive side, PPM provides a solution to many of the problems that commonly plague projects and the companies that depend on them. Applying PPM to projects helps to resolve some of the key issues that lead to project failure. Of the top ten factors leading to project failure, five—incomplete requirements; lack of user involvement; lack of resources; unrealistic expectations; and lack of executive support—are addressed by the implementation of a system that engages corporate leadership in a structured process of selecting and prioritizing projects.

Proper PPM results in bottom-line yields. For example, large functional organizations—that implement a project management group and its corollary practices (including PPM)— lead times to market have been reduced by as much as 60 percent, development costs have declined, quality has improved, and forecasting accuracy has increased.[2]

In addition, assessing and managing risk becomes easier within the context of a project portfolio.[3] To deal with any significant risk, there must be diversification, along with other kinds of balance to ensure continuity and health for the enterprise, such as investing in lower-risk projects that provide a near-certain return, or investing in higher-risk projects, the path to extraordinary returns.

Lowering rates of project failure. Project failure rates have been widely reported throughout the business press, ever since the 1995 Standish CHAOS Report was issued. Although subsequent Standish research has shown that failure rates in IT are decreasing—down from 31 percent to 28 percent between 1995 and 1998, and still falling—even 20 percent failure would represent a huge sum of money. Assuming that projects in areas other than IT fail at even half that rate, the financial losses become staggering. Millions are at stake in moving projects from the "failed" to the "successful" column.

One immediate answer is to choose and prioritize projects in such a way that responsible decisions can be made as to which projects to eliminate. Jim Johnson, chairman of the Standish Group, has identified PPM as *the* process that can make the difference in project success.[4] According to Johnson, "Companies need a process for taking a regular look at their portfolio of projects and deciding, again and again, if the investment is going to pay off. As it stands now, for most companies, projects can take on a life of their own."

Continuous self-assessment should be built in, allowing earlier termination decisions on

Figure 1. Is This Your Company?
Common problems in portfolio management.

- ❑ Too many projects "off strategy;" disconnects between spending on projects and strategic priorities.
- ❑ Too many unfit, weak mediocre projects.
- ❑ Poor projects are not killed but take on a life of their own.
- ❑ Resources are scarce, but unfocused.
- ❑ Too many trivial projects—updates, modifications—and not enough major breakthroughs.

Source: Robert G. Cooper and Elka J. Kleinschmidt, et. al., Portfolio Management for New Products, Reading, MA: Perseus Books. 1998.

failing projects, with the associated cost savings. This frees up money and personnel for dedication to projects that are worth pursuing. The elimination of a project should be viewed as successful resource management, not as an admission of failure.

Apolitical decision-making. All failures are political. When projects are selected and planned in an ad hoc, chaotic environment, objectivity about value goes out the window. Standard methodology helps to take politics out of decision-making. Instead of opinion, there is process.[5]

There are many factors that can delay—or conceal—the need to terminate projects. First on the list is personal pride. PPM methodology cleans up the project selection process by offering a checklist of criteria for project approval.[6]

Chunking for success. Project size is an important factor in success.[4] Big projects, simply, are more prone to failure. This trend can be credited to the rising project success rate of very small projects that get going very quickly—where important milestones are reached very quickly—and, can be identified quickly whether it is failing and needs to be eliminated. This ability for swift action can save time, money and resources.

The process necessary to reorganize around small projects is reframing big initiatives as a series of smaller initiatives. However, this cannot happen in the absence of a PPM methodology.[7]

Achieving Strategic Goals. It has been reported that nine out of ten corporate strategies devised on the executive level never come to fruition. Why not?

Ideally, an organization would conceive of, fund, plan and monitor its projects through a "strategic lens." Without such a holistic view, it's easy to have lots of activity going on without much of it being of real value. (Value isn't necessarily profit, but can include the development of intellectual capital, the improvement of public image, or movement toward a long-term evolution into a new kind of business.) Mistakes, innovations, even losses can all come into focus through this lens. For project-oriented companies, that lens is PPM.

Initiatives get done in the context of projects—whether these efforts are strategically focused or not. A new software selection, development or installation; a new marketing plan; a new factory; a revamped HR program—every project is, in fact, a decision to invest the resources (financial, human, and material) of the organization in a specific outcome. Projects used to be approved based on personality and salesmanship. Now, thanks to improved software capabilities, we can utilize performance data to support that investment decision.

Research confirms that whenever corporate leaders shift from a long-term common vision to a short-term horizon, the organization suffers. Short-term goals must be balanced with the vision, values and plans for market leadership and commitment from management for long-term growth. PPM is the way in which these decision-makers align projects with the organizational strategy—just as strategy is the way the organization aligns itself to the wider marketplace.[5]

Better resource management. Even if your company hasn't been downsizing in search of short-term profits, top-performing subject matter experts aren't exactly a dime a dozen. How can you make sure the most qualified people are working on your top-priority activities? This is a two-sided issue: One side impacts corporate profitability. The other impacts employee morale, which, ultimately, impacts corporate profitability.[8]

Johnson credits project managers for turning the tide of project failures by implementing standard project management processes.[4] Despite the proliferation of tools to support these processes, the presence of a competent project leader is still the critical success factor for projects.

Enterprise resource allocation is a key feature of PPM. It shows whether projects can be staffed with current resources. If the resources are not available or if they have been committed to more work than they can reasonably accomplish, project(s) cannot be completed as scheduled. This may sound simplistic, but in practice, many companies do not know how many projects they have scheduled, or who is going to do them. PPM sheds light into this darkness.

Figure 2. How Well Is Your Company Managing the Project Portfolio?
Take this quiz to find out!

Yes	No	
❑	❑	Does your portfolio reflect and support your business's strategy?
❑	❑	Is each project consistent with business strategy?
❑	❑	Does the breakdown of your project spending reflect your strategic priorities?
❑	❑	Is the economic value of your total portfolio higher than what you've spent on it?
❑	❑	Once projects start, is there very little chance they'll ever be killed?
❑	❑	Are projects being done in a time-efficient manner?
❑	❑	Are your success rates and profit performance results consistent with expectations?
❑	❑	Is your project portfolio heavily weighted to low-value, trivial, small projects?
❑	❑	Are opinions of senior people and key decision-makers in your business captured in order to make project decisions?
❑	❑	Have you considered what the right balance of projects for your new product portfolio is?
❑	❑	Are there redundant projects being performed?
❑	❑	Have all the projects in play been justified on solid business criteria?
❑	❑	Of those that were approved, are they still justified?
❑	❑	Do the managers and team members know where the projects they are working on fit into the priority ranking that best supports the business?
❑	❑	Are there enough resources to get the work done; and if there are not, what trade-offs need to be made?
❑	❑	Do you know which projects make the most money?
❑	❑	Do you know which have the lowest risk?
❑	❑	Do you know which have subjective value, in terms of community image or internal morale?
❑	❑	Do you know which are not optional—projects dictated by regulatory requirements, for example?

Making The Commitment to PPM

PPM is important to top corporate decision makers, however, the literature on this topic—while vast compared to what was out there even three years ago—is still new enough to be confusing.

Rather than starting by searching for a "silver bullet" that will provide all of the benefits of PPM, management must first assess the organization's maturity and level of commitment.

Assessing Organizational Readiness. The first step is to determine whether the organization is mature enough to implement PPM principles. Here is a checklist of basic attributes that must be in place:

1. ***The organization knows how to manage projects.*** Walk before you run. Without project management methodology and practices in place, you won't have the most basic data to work with.
2. ***You know what you have.*** Whether the "portfolio" consists of IT projects alone, or more ambitious portfolio of projects from across the enterprise, a complete list of all the initiatives competing for resources is a baseline requirement to even begin PPM. This isn't as obvious a statement as it seems; in fact, many companies have not gotten this far. Counting projects is a first step towards deriving value from PPM, because certain realities—such as under- or over-allocation of resources and unnecessary costs and efforts—are quickly revealed.

The good news is that even this most basic step surfaces redundancies and dead issues, enabling a PPM initiative to create value for the company almost immediately. The inventory has to include ALL projects, since resources are working on every project—not just on the high-profile ones. And it should include projects that are being carried out by outsource providers and consultants, as well, since even those projects have at least someone within the company as a liaison, contract manager, and/or project manager. These hours often get "lost" in the decision-making process, only to show up later as a cost or schedule overrun.

3. ***The organization has a coherent strategy.*** PPM uses project activities to move the organization forward towards a goal. Groups and individuals that conduct strategic planning are consistently more successful at achieving goals than those who don't utilize it. Research also indicates that maintaining a constant focus on the goal of the group has a high correlation with goal attainment.[9]

   While the condition of corporate strategy is not a factor in the models that describe project management maturity, perhaps it should be. Projects, after all, are only a means to an end. It is up to executive leadership to describe that end so that the rest of the organization can tailor their activities to reach it.

4. ***Good information is available on every project in the portfolio.*** Gathering data in such a way that it can be put into context and become information is where software reigns supreme. You won't make good decisions based on bad information. How long will each project take? How much will it cost? What's the expected ROI? What's the status on the projects already underway? This is where the enterprise-level project management tools with PPM capabilities really earn their keep. Being able to view the most salient information on each and every project in thumbnail-sketch form allows executives to weigh them on an equal scale and compare the relative benefits of their differences.

5. ***The organization knows who is available to work on projects, and when.*** A second part of the inventory process should be, literally, counting heads. Surprisingly, many large companies are only beginning to get a handle on who their project resources are and where they reside on the org chart. For some companies, the scarcest resource isn't money but project managers. A critical factor in project selection thus becomes whether there is an experienced project manager who can manage it.

   In addition to selecting the best project manager, one must question the overall resource pool. How many project managers and project team members do you have? What is each one doing, right now? When will he/she be finished with it? What are his/her areas of particular expertise? In fact, without a system for knowing what each person in the pool of potential project personnel is capable of, and when they will be available, you cannot really be said to manage a portfolio. People do projects. Without them, all you have is ideas.

Get Started. You don't have to wait until all the above criteria are satisfied, so long as there is an enterprise-wide recognition of the need to establish these conditions. Any improvement a company makes in managing the portfolio—even if it is as simple as creating a list of projects—will yield immediate value.

Here are a couple suggestions from the experts:

Start small and keep it simple. Introduce new processes in a phased approach that addresses the most important activities, including estimation, selection, prioritization, developing performance metrics and defining a decision process. Even otherwise well-managed companies can fail abysmally at opportunity management, due to the complexity of their process for dealing with new ideas.[10]

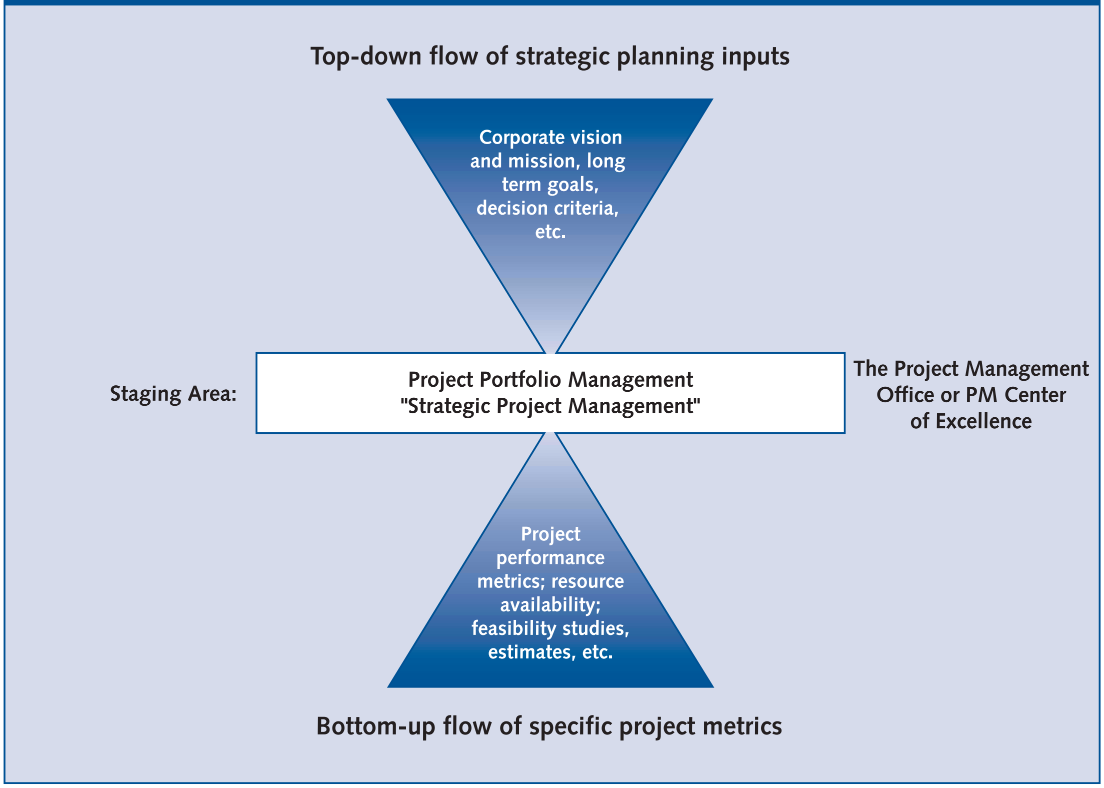
Establish a home for project management and portfolio management. PPM bridges the gap between the executive decision process and the day-to-day project execution that brings value to an organization.[11] As shown in **Figure 3**, the place in the organization where these two practices meet most seamlessly is in a Project Management Office (PMO or Center of Excellence). The development of an enterprise-level project office and the implementation of PPM go hand in hand, and PPM may not even be possible in an environment that lacks some kind of enterprise-level project management presence.[12] Just as project management can fail without senior leadership involvement, PPM can fail for lack of project manager input. It has been reported that only 20 percent of project managers have input into selection decisions.[13] Without the input and buy-in of project personnel, it is difficult to maintain continuity between the selection and execution phases.

An enterprise-level project office answers this lack. Most Global 2000 enterprises are already extending existing project and

Choose your tools carefully. As the organizational readiness discussion above shows, you can't do PPM simply by purchasing a software package; there are many organizational development and culture issues to address, as well.

However, it will be impossible to implement PPM *without* appropriate software. Prior to the merger with Hewlett-Packard, Compaq decided to analyze/manage every IT project—over 1,000, in a Primavera project management solution.

Figure 3. Top-down and bottom-up inputs into PPM



program offices beyond the IT organization to create enterprise, or strategic, program management offices (EPMOs). As these EPMOs mature, management will be able to better prioritize resource allocation across projects, infrastructure, and other areas, with continuously-improving project and program management tools supporting those efforts.[14]

Knowing that the CIO would be able to view every project, sponsors quickly identified and removed non-strategic projects. At the end of the review process, 39 projects were immediately canceled—saving the organization US$15 million.[15] Most *Fortune* 100 companies are receiving the bottom line benefits, similar to

Compaq's, from implementing a project management solution.

"Portfolio" is more than a descriptive word: it's a metaphor for a new way of looking at organizations. The idea of an organization as a portfolio of projects, rather than as a static collection of assets, represents a cultural shift … one that will require strong executive leadership.

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