Module 7

Portfolio Management

Introduction

This module will provide an overview of Portfolio Management to provide you with an understanding of how the process can assist an organisation to establish processes to manage multiple projects, using timelines and balancing/managing resources. Organisations that use portfolio management are able to track resources across projects and to manage “surprise” projects and emergencies more effectively. The material will present several perspectives about Portfolio Management and how to apply this concept in an organisation.

At the end of this module you will be given an assignment that has several questions that will provide you with direction in developing an essay on this topic.

Upon completion of this module you will be able to:

Outcomes

- *define* Portfolio Management.
- *describe* the importance of portfolio management.
- *construct* portfolio buckets made up of the types of projects that you have identified.
- *categorise* projects in relation and in alignment to the organisation’s strategic plan.
- *develop* a matrix to prioritise projects.
- *apply* the project portfolio management tools and techniques to maximise the utilisation of resources of the organisation.

Terminology

Project portfolio management:	A portfolio is made up of a collection of individual projects undertaken by the same organisation. These individual projects, should they share the same key characteristics, can be lumped together under a common group or bucket. For example, the Innovation Bucket contains projects which require innovative applications or technology, or produce innovative products. Thus a project portfolio may contain several buckets of projects.
Independent project portfolio:	These are projects which are not directly connected to one another in the sense that should one project fail or even not start at all, the other projects within the portfolio are not affected.
Interdependent project portfolio:	These are projects within a portfolio which are closely connected to each other. The failure of any one project affects the other projects resulting in the overall failure of the entire portfolio.
Portfolio buckets:	Each bucket contains projects which share the same key characteristics which causes these projects to be lumped together within the same bucket. For example, the Operational Bucket will contain projects which are focused on improving operational performances of the organisation. These projects are usually about staff training/upgrading, automation, reducing the number of steps in a process and other core business processes.

Portfolio management

Portfolio management is the application of knowledge, skills, tools and techniques to a collection of projects to meet the organisation's strategic investment. Portfolios are made up of a collection of projects such as innovative projects where a company may want to invest in new products and services, or key operational projects to upgrade the environment to pave the way for new initiatives, or, in the case of government a programme or portfolio would be a collection of projects under one umbrella.

While project management itself focuses on "doing projects right", portfolio management focuses on "doing the right projects". Many organisations' existing portfolios suffer from:

- too many projects and not enough resources available to complete them
- ineffective project prioritisation
- projects cancelled without solid information

- too many minor projects in the portfolio.

The end result of this in most cases is poor performance. Projects take too long to get to market with higher than acceptable failure rates.

The purpose of portfolio management is to provide a mechanism or tool to choose the right projects for the organisation to provide maximum return on investments. In the simplest terms portfolio management involves establishing a continual and integrated process within an organisation to choose and execute new projects to focus on those that bring the highest value to the organisation with the least amount of risk.

Michael S. Dobson in *The Juggler's Guide to Managing Multiple Projects* has defined three types of project portfolios:

1. **Task Oriented Project Portfolio** – small in amount of work and time, person managing these usually has a full time job and is "juggling" multiple small projects
2. **Independent Project Portfolio** – projects not directly connected to one another, if one fails or succeeds it does not directly affect the other projects in the portfolio
3. **Interdependent Project Portfolio** – the most challenging and the one that we will focus on, projects are connected to each other and the success of the entire portfolio depends on the success of all projects under that umbrella.

In large organisations you will often find multiple interdependent portfolios. The challenge this creates is enormous. Resources for the projects are cross organisational and all projects and portfolios are normally competing for the same resources. This creates a nightmare in terms of managing the most critical asset within an organisation "resources". For the most part organisations decide to implement portfolio management to assist them to gain control of this critical resource and understand from an organisational perspective where resources are under or over allocated. Once a cross organisation view is obtained relating to resources then key decisions can be made to more effectively manage the internal resources and to provide supporting outsourced resources where it is most appropriate.

Implementing a portfolio management process is one solution to the issues identified. In order to effectively manage portfolios it is necessary to define and implement a systematic process for selecting which projects to do in the organisation, how to integrate new projects into the process during the course of the year, and how to effectively manage the projects in progress by the use of a firm gating or go/no go process. Resource capacity analysis is another extremely important feature of any portfolio management process that must be included to reap the most rewards.

To begin the process of establishing portfolios the organisation must define the projects that are managed in the organisation. The first step is to identify the types of projects managed in the organisation, and secondly categorise these projects to determine relative size, complexity, and the relation of the projects back to the strategic plan in the organisation. The following is an example of how an organisation might define the types of projects managed to form “portfolio buckets”:

Strategic: Market Focused Essential to current business strategy and provides a competitive edge.	**Innovative:** Change Focused New products or services to support business strategy
Operational: Performance Focused Improves core processes for the long term and avoids business risks and increases performance	**Support:** Cost Focused Improves productivity/efficiency and saves money or reduces costs

Diagram used with permission Enterprise Project Management Ltd.

The second step to establishing portfolio management is to categorise projects to determine, size, complexity and relation to the organisation’s strategic plan. The following diagram is an example of how an organisation might categorise projects:

Criteria	Category 1	Category 2	Category 3
1. Project types	▪ Strategic ▪ Operational	▪ Operational ▪ Innovative	Support projects
2. Average # of Team members	>50 – 100 person-months	>10 – 50 person-months	2–10 person-months
3. Project cost	> $2 million	$500,000 – $1 million	< $500,000
4. Planning complexity	Very high cross functional team, specialised expertise	High, cross functional team	Medium to low, functional
5. Risk	Significant	High	Medium to low
6. Stakeholder Environment	Multiple external and internal stakeholders multiple locations	Multiple customers and multiple sites	Internal customers, some external customers
7. Solution complexity	Integration, global, very high	Integration, multiple locations	No integration, local

Diagram used with permission Enterprise Project Management Ltd.

Once an organisation has defined the project types, these can become portfolios, and once the categories of projects are established and agreed to, the processes can be put in place to develop a portfolio management process for the organisation.

Portfolio management focuses on doing the right projects. The challenge is in keeping the portfolios manageable. To do this an organisation must focus on another process, which is comparing projects within and across portfolios to ensure that the "right projects" are completed that provide the best return on the strategic investment. The following diagram shows one process that can be adapted within an organisation to compare projects against each other within and across portfolios.

	A	B	C	D	Row Sum	Rank
Project A		0	0	0		4th
Project B	1		0	1		2nd
Project C	1	1		1		1st
Project D	1	0	0			3rd

Diagram used with permission Enterprise Project Management Ltd.

Balancing portfolios is a challenge even if the processes have been put in place to identify, classify, select, make go/no go decisions and rank projects. Often the component that is not factored in to decisions is the resource balancing. In fact, organisations that fail at implementing a portfolio management process are those that do not factor in resource implications with their project evaluation process. The resource commitment must be aligned with the portfolio processes and strategy. The resource "stretch" is often a result of failure in selected tools to manage resources across portfolios and reluctance by executive and management to say "no" to some projects even if they appear to be worthwhile.

The results of too many projects can be serious, some of the negative effects are:

- Time to market suffers as projects end up waiting for resources to become available
- People are spread thinly across projects and start to cut corners and push to complete tasks, tasks fall through the cracks or are purposefully left out in the interest of saving time
- Quality of execution suffers
- Quality of information is deficient and decisions can be made based on less than solid information
- Stress increases, morale goes down.

All of these factors contribute to higher failure rates and the inability to achieve the full potential for the organisation.

When implementing portfolio management in an organisation, there are many factors to consider. Some of them have briefly been described in this module. Any portfolio management system must include:

- Identification of the types and categories of projects within the organisation
- Process development:
  - including decision points in the process – gates/go/no decisions
  - Project selection process
- Resource management
- Strategic fit of projects to the organisation
- Tools to support the process.

No matter how sophisticated or elegant a portfolio management process is, if the information input is poor the decision-making will be impacted.

Managing multiple projects

If multiple projects are to be successful, corporation needs to focus on six major areas (Kerzner, 2003).

1. Prioritisation

Every project is important from its time and funds management perspective. But project manager having multiple projects in hand may focus on those projects having priorities of completion. Reasons could be fulfilling a client's requirement, funds availability or time restriction.

2. Scope changes

Scope change is inevitable in any project. But the majority of the scope change needs to be done at the beginning of the enhancement to avoid a discouraging effect at a later stage. Continuous or on-going scope change of a project may limit the progress of other projects.

3. Capacity planning

Capacity availability and its management are major issues in a multiple project management situation. When resources like labour-hours, machine-hours, funds and time are always limited, managers managing multiple projects need to look at the resource loading and levelling, as discussed previously.

4. Project methodology

Strict adherence to formal project management policies should be order of multiple project management. This invites more paper work and project managers' time on accomplishing these tasks. Some form of freedom must be granted to project managers whenever deemed fit.

5. Project initiation

It may be advisable that the project initiation be staggered. Because the demand on a project manager's time is different at various stages of a project life cycle, the time allotment may be synchronized for various projects.

6. Organisation structure

All projects seem to be a collection of line managers from various functional areas. In a multiple projects, accountability is shared with all line managers resulting in a weak matrix structure.

Module summary

Summary

In this module you learned:

Portfolio Management is about juggling multiple projects with limited resources. Private sector companies, often operating in a pressure cooker environment, do not have the luxury of surplus resources. Hence scarce resources need to be maximised while projects need to be prioritized in portfolio management. Identifying the different types of portfolio, the Interdependent Project Portfolio being the most critical as the success of the portfolio depends on the success of each and every project under that portfolio.

One useful tool is developing "portfolio buckets" to categorise the types of projects. The example provided had four categories; Strategic, Innovative, Operational, and Support. You can think of other categories to suit your organisation. An automobile company's projects on car development might have a portfolio bucket with categories such as Hybrid/New Technology, Mainstay, and Basic Models/Emerging Market.

Develop a matrix to provide a comparison between all the projects run by the organisation. Set the criteria to determine, size, complexity, costs, duration, risks exposure and, most important of all, relation or alignment to the organisation's strategic plan.

The very essence of portfolio management is maximising resources to give the highest yield in terms of the returns of investments.

Assignment

Assignment

1. Provide an example that illustrates your understanding of each of the following:
    a. Independent Project Portfolio
    b. Inter-Dependant Project Portfolio.
2. The model of the portfolio bucket discussed in this module illustrates four different buckets. Propose a new category of portfolio bucket that is relevant to your project.

Assessment

Assessment

1. Under what circumstances is Portfolio Management approach considered?
2. What are the benefits of utilising a Portfolio Management approach?

Assessment answers

1. **Under what circumstances is Portfolio Management approach considered?**

   Portfolio Management is considered when an organisation faces too many projects and does not have enough resources available to complete them. The purpose of portfolio management is to provide a mechanism or tool to choose the right projects for the organisation that provide maximum return on investments with the least amount of risk.

   When the multiple projects are connected to each other and the success of the entire umbrella of projects depends on the success of all projects, then we have what is called Interdependent Project Portfolio. This makes it all the more critical for the organisation to implement Portfolio Management in order to prioritise resources to such Interdependent Project Portfolio.

2. **What are the benefits of utilising a Portfolio Management approach?**

   By selecting the projects that are best aligned to the strategic goals of the organisation, the benefit to the organisation can be described as securing the best return on the strategic investment with the least risk exposure.

   These benefits can be in the form of:

   - Reduced time to market
   - Quality of execution improves
   - Project deliverables meet or exceed clients' expectation
   - Return of investment increases.

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