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Ten Steps to Comprehensive Project Portfolio Management – Part 2
The Project Portfolio Management Life Cycle

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This series of papers has been developed from our work in upgrading TenStep's PortfolioStep™.
For more information on TenStep's internal consulting methodology, please visit
http://www.portfoliostep.com/0.0.0PortfolioStepHomepage.htm

In this Part 2 we will cover:

- PREPARE Phase, Steps 1 & 2
- PLAN Phase, Steps 3 & 4
- PLAN Phase, Steps 5 & 6
- EXECUTE Phase, Steps 7 & 8
- HARVEST Phase, Steps 9 & 10

PREPARE Phase, Steps 1 to 4

Step 1 – Portfolio Setup (Categorization)

The Project Management Institute defines "Categorization" as: "The process of grouping potential components into categories to facilitate further decision-making", and it defines a category as: "A predetermined key description used to group potential and authorized components to facilitate further decision-making. Categories usually link their components with a common set of strategic goals."

When first implementing portfolio management, obviously you must first establish what you are going to manage. That is, you need an overview of the extent and variety of existing and potential work, how it maps into the organization's overall strategy and so on. In other words you must have a good idea of the extent and size of your portfolio mandate.

So, for the first time through this heading comes to the top, but we prefer to call it "Portfolio Setup". In subsequent passes, you may well decide that it makes more sense to conduct detailed categorization following identification of all the new portfolio components. But for now, Setup is where you define the terms, scope and definition of your portfolio, and gain agreement on your basic portfolio model.

Step 2 – Identify Needs and Opportunities (Identification)

This step starts with an evaluation of your environment through a Current State Assessment and then contrasting the current state with a Future State Vision that describes where you want your organization to be in the future. This process results in the validation (or creation) of your mission, vision, strategy, goals and objectives. In particular, your strategy and goals will provide the high-level direction that will help align and prioritize all the work for the coming business cycle.

The Identification step can also be very lengthy the first time you establish portfolio management in your organization. The Current State Assessment, for instance, may take a long time to complete. However, in subsequent years, you only need to recognize the changes. For instance, your strategy and goals may change slightly to put new emphasis in a couple different areas. However, they should not be radically different from one year to the next. Since your organization has probably not changed a lot over a one-year period, your Current State Assessment may need to be reviewed and updated, but not necessarily performed again from scratch.

The Identification step is also where all of the potential work is surfaced for the coming year. At this point, each request should have, at a minimum, a simple Value Proposition document that describes the work, the value that it will provide to the organization and the basis of alignment with the overall organizational strategy and goals. If you are including all work, the Value Propositions will include both projects and "Other Work".

Step 3 – Evaluate Options (Evaluation)

You cannot make decisions on prioritizing work without knowing what the organization feels is important. This is where you need to revisit the documentation from Step 1 – Portfolio Setup and ensure that you have a proper basis for evaluation of all the work opportunities included in the portfolio. This will result in establishing the context within which work priorities and approvals will be made.

This Step 3 includes validating the Value Propositions prepared in Step 2 – Identify Needs and Opportunities, and perhaps you will need to clarify the most likely candidates.

Step 4 – Select the Work (Selection)

In this step you or your portfolio group must make serious and potentially far-reaching decisions. Although it may sound simple, this effort must be meticulous and rigorous. For instance, if there is any question about a particular but likely Value Proposition, the Value Proposition may need firming up. In all but minor work efforts, a more detailed Business Case should be created for all projects that survive the initial selection.

Thus, during this step you should have had a complete review of all the Value Propositions and/or Business Cases on the table and end up with a selection of work that you actually expect to conduct during the ensuing period.

PLAN Phase, Steps 5 & 6

Step 5 – Prioritize the Work (Prioritization)

One of the key assumptions of Project Portfolio Management is that there is much more work requested than the organization can execute in one year. (If, in fact, you could do everything requested, you might not need such a process. However, experience tells us that this is very unlikely unless, perhaps, the business is in a state of decline.)

Once all the work has been selected, a prioritization process begins. First, work is prioritized within each business unit or group, and the Business Cases for all the work are then prioritized to come up with a final list of prioritized work. This process is easily described, but hard to accomplish because of the need for collaboration and consensus amongst all the senior managers and/or stakeholders.

Step 6 – Balance and Optimize the Portfolio (Balancing)

Having selected and prioritized the work, it is important for you to step back and take an overall hard look at the resulting work now contemplated. The question is, is it "balanced"? That is, does the resulting mix satisfy the overall direction of the organization and its overall priorities? Just as important, does the resulting mix produce the best or optimum benefit value?

You may find the answer to the first question is relatively easy to answer by adding up the estimated work under each of the categories and comparing that with the strategic plan. The answer to the second question is more difficult because you not only need to estimate the value of the anticipated future benefits, but you may find yourself trying to compare different types of benefits. Some of these benefits may not necessarily be identifiable in financial terms and you will need to apply subjective judgment.

As an example, a new process or system will lead to a reduced number of steps compared to a previous process. However, the benefit is not likely to be realized in reduced cost because no one will be laid off as a result, but it should lead to reduced errors, consequent higher customer satisfaction, customer loyalty and repeat business. Here there is a clear and desirable benefit, but not one that can be readily compared in direct financial terms.

EXECUTE Phase, Steps 7 & 8

Step 7 – Authorize the Work (Authorization)

After the Balancing step, the work thus finally selected is authorized for the coming year. This process lists and sets aside requisite budget and resources to carry out the selected work. This is not necessarily a guarantee that the work will be funded because changes in business conditions or newly surfaced work during the year could bump some authorized work off this approved list. However, all things being equal, authorized work will be scheduled and executed during the year.

Step 8 – Plan and Execute the Work (Activation)

Activation is the process of actually scheduling and executing the work throughout the year. In this Activation step, managers build schedules to start and complete as much of the approved work as possible. Operations and support staff are in place at the start of the year and will be in place all year.

Obviously, you cannot start all projects at once at the beginning of the year otherwise at some point everyone will be overloaded.

If did try to schedule all your projects to start at once, you would have to hire more staff for the peak workload, and then have them idle during the slower time. Hence, projects and other work need to be scheduled throughout the year based on business urgency, availability of staff and/or the logical relationships of outputs. Just as with resource leveling in project management, this is rather like assembling a jigsaw where everything must fit together.

This Activation step should also contain a mini-Business Plan Process to account for new and unexpected work that arises during the year. Such work also needs to be selected, prioritized and authorized. If new work is authorized, it may mean that some work that was previously authorized will need to be delayed or even canceled.

So, Activation includes keeping track of old projects to track value metrics and lifecycle costs, as well as keeping track of future work to ensure that all work Authorizations and Activation is scheduled appropriately based on business priorities and availability of staff.

HARVEST Phase, Steps 9 & 10

Step 9 – Report on Portfolio Status (Reporting & Review)

It is one thing to report on the progress of individual work and individual projects, but with a large portfolio this results in a lengthy and often too detailed report. In any case, what senior executives or senior management will want to know is how the overall portfolio is progressing, what results are being achieved, what the overall portfolio picture looks like, and so on. In short, are the various benefit enablers being achieved, and if so, what results are they currently returning?

Put another way: What is the status of our strategic goal achievement, asset contribution, current corporate risk profile, and our corporate resource capability? Answers to these questions may well lead to some modification of the authorized and activated work, and the need for further review and re-forecasting.

Step 10 – Improve the Portfolio (Benefits & change)

Over the longer term, that is, annually when products and other benefit enablers have been launched and the harvesting of benefits commenced, the results of the Portfolio process can be collected. These results should be fed back from Operations to the Executive for information and to the Steering Committee for thorough examination and analysis. These results should enable you to assess the effectiveness of the portfolio process and propose changes to improve the whole cycle in the future.

Some of these changes may even imply or require changes in the Executive vision and strategy. Other changes may be focused on how the process itself is conducted but nevertheless involve any of the three main parts of the organization, the Executive, Project Management, and Operations.

For example, you have established a Portfolio Management Process and in its second year you have gained experience of the process in the organization and are ready with changes to detailed procedures and guidelines designed to improve process effectiveness. You have also identified opportunities to improve efficiencies in project management, by inviting that group to adopt a common project management methodology (not the same as the technology management methodology.

However, you feel that expected benefits are not being realized to their full potential because of weaknesses in product launches, marketing, selling, training, support, and so on. From the table Figure 1 you can see that these shortcomings are essentially the responsibilities of Executive management and Operations. You will need to make a carefully documented case of how the portfolio process can be improved overall, and who must be responsible, if the organization is to reap the full benefits of its project work investments.

Portfolio Management Flexibility

We must emphasize that all the steps described above do not necessarily have to be strictly sequential. Management is often an iterative exercise and so you must exercise judgment as to how far you go with each step and in what order, to make the whole system work together.

Coming next

In Part 3 we will examine the nature of Projects, Programs, Portfolios and Strategic Direction.