August 2007

Ten Steps to Comprehensive Project Portfolio Management – Part 3
Projects, Programs, Portfolios and Strategic Direction

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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 3 we will cover: Projects, Programs, Portfolios, "Other Work"

- Establishing the Management Environment
- The Organization's Strategic Plan
- The Role of the Project Management Office
- The Role of the Project Portfolio Steering Committee

Projects, Programs, Portfolios, "Other Work"

Much of the work of many organizations is accomplished through projects. In some cases, a large project is called a program and then the program is split up into smaller projects or "sub-projects". However, a portfolio has a broader meaning than a program. The four terms are compared and contrasted below when viewed from the perspective of project portfolio management.

Projects

A Project is a novel undertaking and systematic process to create a new product or service the delivery of which signals completion. Projects involve risk and are typically constrained by limited resources. Note that while we don't speak here of a "beginning and end" or even "temporary endeavor", these are both attributes of projects. The important point here is that once you, as a project manager, have created and handed over the deliverable, the project is finished and you are done. However, until the deliverable does exist and is handed over successfully, you, as a ***portfolio*** manager, are ***not*** done! Another of the distinguishing features of projects compared to on-going "business-as-usual" work is that projects start and end on dates that may or may not coincide with the annual business accounting cycle.

In the context of portfolio management, projects are the source of "deliverables" that are the enablers of "benefits". So projects should be launched, not because they are someone's brainchild, or pet idea, but because potential benefits have been identified that are consistent with the organization's corporate strategy. Then the projects should be deliberately designed by Project Management to create and deliver the enablers that in turn will be used by Operations to return the benefits.

Programs

A program is a group of related projects managed in a coordinated way to facilitate a level of management and control that is not available from managing the projects individually. Programs may include elements of related work outside of the scope of the discrete projects in the program. So, a program is like an umbrella for a group of related projects. A program often implies that one or more projects are running in parallel with others, and a Program Manager manages the whole collection.

The basic responsibility of a program manager is to provide overall management and guidance to the projects running within the program. In particular, the correct sequencing of the various projects and allocation of resources for purposes of coordinating the arrival of deliverables is key to successful program management. Thus, all of the projects in the program are related and all are set up to deliver portions of a very large deliverable or set of deliverables. Programs typically do not contain operations or "other work". If they do, it is only for a finite period of time when some deliverables need to be supported and run, while other projects are still working on other aspects of the final solution.

Portfolios

A Portfolio, for our purposes, is a collection of programs and/or projects and other work that are grouped together to facilitate effective management of that work to meet strategic business objectives. Unlike a program itself, the projects or programs of the portfolio may not necessarily be interdependent or directly related.

Thus, a portfolio will typically be the umbrella structure over a group of related and unrelated projects and other work. A program could be contained within a portfolio, although the reverse would not likely be true. A portfolio may also be defined to contain support, operations, non-labor expenses, although those types of work do not have to be included if there are good reasons not to do so.

The portfolio allows you to optimize investment decisions by prioritizing and balancing all work within the portfolio. For maximum effectiveness, a portfolio should encompass all of the work that draws on common resources such as that contained within an entire Business Unit or department. However, again, work is not done at the portfolio level. Instead, the work is done through the projects, support teams and operational teams that are working within the portfolio

"Other Work"

In the information technology arena, at least, it often happens that the responsibilities of a particular resource unit include support work. Support work is work of an on-going service nature such as recovering from a service failure, fixing errors, answering questions from your internal users, researching questions and so on. Unlike a project, the work does not result in an obvious or manageable deliverable. Rather, it is a matter of some urgency requiring immediate attention, yet delivers value to the organization.

Alternatively, the work may produce a stream of deliverables of such a minor nature that individually each does not warrant treatment as a project. The need to include this kind of work under the umbrella of a portfolio may be because the availability of the necessary technical skills is limited and must be drawn from resources otherwise available for the projects in the portfolio. Only in this way can the total capacity of the resources for the portfolio be estimated and managed.

Establishing the Management Environment

As we said in our Introduction, portfolio management is a business process that requires a set of detailed processes to be conducted in an interrelated continuous sequence. It presumes that the organization has a strategic plan, along with customary mission and vision statements, together with strategic goals and objectives. The organization's strategic plan, and the benefits that are intended to flow from it, provides the decision base for the portfolio management effort and the determining factors that will make the portfolio unique.

For portfolio management to be successfully implemented, the following conditions must also exist:

- The management of the organization embraces the concepts of portfolio management
- A number of projects, programs and other related work exist
- Appropriately skilled staff is available to manage the portfolio
- Relevant project management processes exist
- Organizational roles and responsibilities exist
- Effective communications exist throughout the organization impacted to convey business decisions and receive feedback

To craft the best arrangement of the portfolio management process in your organization, you must:

- Examine your organization to see how and where it would best fit
- Understand the organization's strategic plan
- Establish the determining factors for managing the portfolio, including available capacity
- Consider all of the potential and actual projects, programs and other related work that will be encompassed within the portfolio area
- Adhere to a set of agreed-upon processes, and
- Apply them with a degree of rigor only to the extent necessary for the portfolio to be effective and efficient
- Establish Key Performance Indicators to enable "continuous improvement"

Although some changes may be obvious and necessary, it is probably best to start with minimum disruption to existing operations.

The Organization's Strategic Plan

Organizations frequently invest in change, almost for the sake of change. That's because others are doing it, it is perceived as "best practice" and, so the argument goes, is bound to bring improved capability and performance. Or even perhaps because management subconsciously feels that it will be seen to be "doing something" and thereby justify its existence. However, much research suggests that such approaches produce poor success rates and poor returns.

As we have said earlier, the need is for focus, but you also have to start in the right place. Just as with project management, you don't "do a project" simply because it seems like a good idea, you do it for the sole purpose of creating a deliverable, that is, a product or service. You then work backwards to establish what you have to do, in what order and when, in order to "evolve" the project.

In a very similar way, a whole organization needs to understand what it is about, where it is today, where it wants to be tomorrow and beyond, and what benefits that will produce to keep it afloat. In short, it needs a clearly defined set of end goals resulting from a vision, mission and set of objectives, and a properly planned route to get there. Of course, this is standard management stuff, and most organizations have some kind of stated vision or end goal.

Unfortunately, this goal is often:

- Poorly defined
- Not adequately communicated, understood, shared and owned
- Vague, unrealistic, or without the means for achievement
- Requiring some leap of faith and perhaps miraculous intervention
- Expressed in terms of establishing capability rather than in attaining benefit value

If you are faced with this problem, the subject must be approached delicately. It is not generally well received if you start by telling senior management what they should be doing. However, it is quite feasible to research the organization's records, gather whatever information is available and hold a brainstorming session amongst your group and invite them to "translate" that information into a realizable and valuable end state. You can then take that to senior management and ask: "This is what we understand, is it where we should be headed?" The results may even be surprising.

Having validated an end state, it should be possible in a similar way to establish a set of associated benefits and their necessary enablers. The enablers are the products of projects, often a set of projects, a program and ultimately a portfolio of work. When fully assembled and prioritized, this becomes the strategic plan.

Note again that we have worked backwards. We have not started with a strategic plan and tried to figure out all the projects that we can think of to fulfill the strategic plan. Those that do take this approach should not be surprised that they quickly find themselves overwhelmed and overloaded.

As an example, you may have decided that your end goal is increased market share. One enabler of increased market share could be improved image. Improved image could be enabled by improved service. Improved service could result from fewer complaints. Fewer complaints would flow from fewer errors. Fewer errors would result from substituting a simpler process, or fewer steps in an existing process, or more automation, or some of all three. These four options represent the most immediate projects and the portfolio management issue is to decide which project or projects will produce the most effect – i.e. the most benefit.

This example is obviously a very simple case but it serves to illustrate the approach. In more complex cases, you will find it useful to plot the situation graphically. Such graphical illustrations are called benefit maps and benefit maps provide very clear depictions of the strategic plan.

The Role of the Project Management Office

In many organizations, higher levels of management are increasingly viewing a Project Management Office (PMO) as an essential element that enables the success of projects, and hence, the future success of the entire organization. There are a number of compelling reasons.

Consistency

Where there is any significant number of projects, it is simply not possible to conduct successful portfolio management unless there is consistency of method and consistency in the resulting data being fed back to the management of the portfolio, that is, the Steering Committee. This simply means that there MUST be standard project processes and procedures in place, and a PMO is the best vehicle to ensure that this happens.

An even more compelling reason

There is yet another reason that will comfort the financial administration of the organization. Again where there are a significant number of projects, it is simply not financially efficient for every project to be carrying its own contingency fund. Better that these contingency allowances are identified and earmarked, but retained in a central repository held within the PMO. This way the funds can be usefully applied towards cash flow requirements, rather than sitting idle in disparate pockets.

Allocation of responsibilities

The PMO can ensure that responsibilities are properly identified and correctly assigned. These obviously include the following.

The Project Manager – Obviously, this is the person with the authority to manage the day-to-day work of the project. This includes leading the planning and development of all project deliverables and responsibility for managing budget, work plan and the appropriate technology management procedures and processes. Project managers should be responsible for managing a project from inception to closure as evidenced by successful delivery and transfer of the project's product into the care, custody and control of the Client or Customer. Project managers are stakeholders in the portfolio management process, and may provide assistance though they do not have a formal role.

The Project Sponsor – This is the person who puts forward project work during the Portfolio Selection process and has ultimate authority over the project if selected. For example, the Sponsor provides project funding, resolves issues and scope changes, approves major deliverables and provides high-level direction. He or she also champions the project within his/her department.

The Steering Committee – This is a group of high-level clients and stakeholders who are responsible for prioritizing work, providing strategic guidance to the portfolio, prioritizes work for the portfolio and then monitors the portfolio during the year. If new work comes up or if changes occur in the authorized workload, the Steering Committee determines the impact on the portfolio and adjusts accordingly. This group may, or may not fall under the heading of PMO.

However, if the Steering Committee is a completely separate entity, then the PMO can perform an important role in ensuring that members of that committee do not interfere with the day-to-day work of the project managers.

The Role of the Project Portfolio Steering Committee

Managing a portfolio does place special demands on project management. As we noted earlier, where there is any significant number of projects, it is simply not possible to conduct successful portfolio management unless there is consistent reporting of data being fed back to the Steering Committee.

Without interfering in the project management process, or trespassing on the program/project management responsibilities of a PMO, the Steering Committee will want to gain a regular overview picture. This will include indications of project progress with a view to cancellation and substitution if very unsatisfactory, the status and availability of resources, the performance and reception of deliverables, and so on. This means that there MUST be standard project management processes and procedures in place.

The most important process: Design of a common project life span

Perhaps the most important standard project management process, from the portfolio perspective, is a gated project life span methodology within which the appropriately adopted methodology for the technology is conducted. That is because overall portfolio progress status reporting depends on receiving reports from project management, especially at key milestones, that are in a consistent format across all projects.

These key milestone reports are typically, and in progressive order: Value Proposition; Business Case; Project Charter; and Delivery Acceptances as shown in Figure 3. Standard templates for each of these milestone documents are available elsewhere.

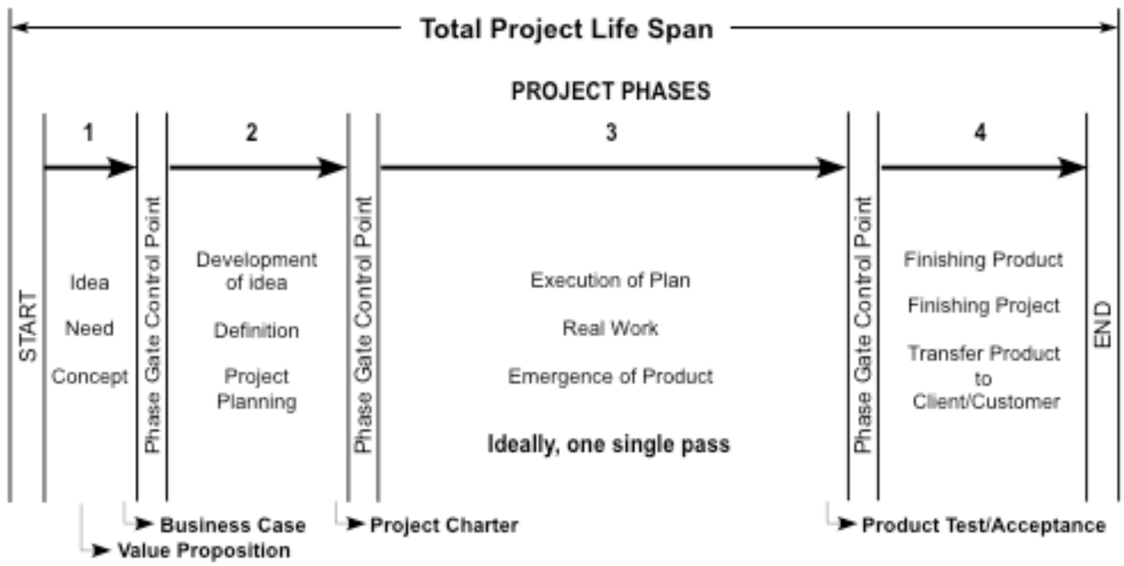

Figure 3: Idealized high-level gated project management process

From the diagram you will see that each of the documents listed serve quite different purposes. It is worthwhile emphasizing this point by briefly describing each in the context of portfolio management as follows.

The Value Proposition is a quick one-page document briefly describing a potential project or initiative and its justification. It is used for initial screening and its purpose is to reduce overhead by avoiding unnecessary preparatory detail by weeding out work that is obviously of little benefit value and/or not aligned with the overall management strategy. It is a very simplified form of Business Case. However, for a small project you may decide that it represents sufficient documentation for the project to proceed through to completion and product delivery. Apart from this, you may find that the Value Propositions screen out some 50% of the potential opportunities, while the rest proceed on to a Business Case

The Business Case is a more elaborate document required to justify a medium or large project. It is obviously a key document in the early life of a project or program. It describes the reasons and the justification for the project's undertaking based on its estimated costs, the risks involved and the expected future business benefits and value. You may find that the Business Case screens out, say, another 25% of the potential opportunities. The Business Case provides the basis for selection and authorization of further expenditure of resources for detailed investigation, feasibility, planning and so on that will be contained in a full Project Charter.

The Project Charter is a key approval document in the on-going life of a medium to large project or program. It provides the project manager with the authority to consume portfolio resources to execute the project within scope, quality, time, and cost constraints. The content and effort to prepare the Project

Charter should be scaled to the size of the project. It also provides portfolio management with the basis for final selection, authorization and release or expenditure of further resources from within the portfolio.

The Delivery Acceptances of deliverables may be documented in different ways depending on the nature of the physical items or measurable outputs that are identified as part of the project's product or objectives. Deliverables can also include intermediate products or services that are necessary for achieving the project's final results. These reports will alert portfolio management of pending project completion, and the transfer of the care, custody and control of the deliverables over to operations, or to another client or customer.

Coming next

In Part 4 we will provide tips on Steps 1 to 4.