Ten Steps to Comprehensive Project Portfolio Management – Part 4
Tips on Steps 1 to 4
By R. Max Wideman

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 4 we will cover:
- Tips on Step 1 – Portfolio Setup (Categorization)
- Tips on Step 2 – Identify Needs and Opportunities (Identification)
- Tips on Step 3 – Evaluate Options (Evaluation)
- Investment Science
- Tips on Step 4 – Select the Work (Selection)
- Secondary Selection criteria for screening

Tips on Step 1 – Portfolio Setup (Categorization)

The first time your organization introduces portfolio management, it must determine all of the elements that will compose the planned portfolio. In a large organization there may be more than one portfolio, each designed for a different division or different focus. Selection of the respective components will depend on the individual portfolio plan's operational goals and objectives. Your best way to draw up an inventory of all of the potential components is to establish a set of Key Descriptors through which the components can be identified, assembled and compared, i.e. categorized.

For example, the following list suggests possible descriptors that you could adopt and include:
- Reference number
- Brief description of the component
- Class of component, e.g.
    - Project
    - Program
    - Business Case
    - Value Proposition
    - Sub-portfolio
    - Other related work
- Strategic objectives supported
- Benefits – quantitative
- Benefits – qualitative
- Sponsor, client, customer
- Type of product, deliverable or enabler
- Estimated cost
- Risk category

Based on this data, the potential components can be categorized based on one or more of the descriptors such as Class, Objectives, Type of Benefits, Client, Cost or Risk level, depending on whatever makes the most sense to the organization. In subsequent years, the principles will have been established so this step should prove to be easier. Nevertheless, the actual components in the various categories identified will change.

Tips on Step 2 – Identify Needs and Opportunities (Identification)

Differentiating between needs and opportunities

"Other Work", as we have already described, encompasses operations and support work necessary to keep things working in the future pretty much the same as they are working today. Projects, on the other hand, have a start and finish and are generally designed to take advantage of opportunities and represent the way an organization builds new capabilities or responds to events in the marketplace.

But projects come in different sizes and, in fact, could be as little as one hour. However, from a practical standpoint, organizations should establish thresholds so that different levels of "ceremony" can be applied, and those "projects" that are so small that they do not warrant any ceremony will be classified as "Other Work". For example, you may decide that any request for a specific piece of work that will take less than 25 hours will definitely be treated as Other Work. If your department is a larger one, that number of hours may be higher. What is "small" to one company may be quite "large" to another.

Of course, if the volume of Other Work such as this is significant and fairly steady, it may be possible to dedicate a group of people to this work. In this case, this group's work would not be included in the portfolio in the first place. Even so, including the group as part of the available resources has its advantages. It provides greater flexibility in the allocation of skills, and more opportunities for the people involved.

The following demonstrates the concept of "project sizing".

- **Support work** – Short-run, project-like non-discretionary Other Work necessary to keep normal operational work going, e.g. a discrete task of, say, less than 25 man-hours
- **Small project** – A non-complex project involving a relatively small number of man-hours that has some discretion for prioritization, say, 25 to 250 man-hours
- **Medium project** – Probably where most projects fit, needs managing but not necessarily full-scale ceremony, say, 250 to 2,500 man-hours
- **Large project** – Projects requiring full-scale treatment on account of size and complexity, say, over 2,500 man-hours

Programs can be similarly scaled to suit organizational requirements.

Regulatory and legal requirements

From time to time you may encounter projects that are mandatory on regulatory or legal grounds. In this case you will be obligated to assign the necessary resources and schedule the projects during the year. But if any are not urgent, you may not necessarily assign them immediate priority. For example, you may have to modify accounting systems and processes to comply with new standards or guidelines issued by accounting standards groups. Or, you may have to make payroll changes to account for new tax laws changes, or new Human Resource system changes to comply with new collective bargaining terms. None of these are necessarily providing a competitive advantage or building new capability, so perhaps they can be slotted in later in the year's portfolio program.

Tips on Step 3 – Evaluate Options (Evaluation)

Cutting work

The purpose of the Identification Step 2 was to uncover all of the potential work that should be considered for the portfolio in the coming year and beyond. In many cases, this may have been the result of brainstorming exercises. In any case, this step should have cast as wide a net as possible to include all of the work that could possibly be in this year's portfolio.

Now let's assume that all of the potential work for the coming year has been identified. No doubt you already know that it is more than you can handle and that some, perhaps much, of the proposed work will not be authorized. So now you need to start the process of scaling back so that you can bring forward only those components that are of the most importance and value. In later steps, you will be prioritizing work from most important to least important. However, at this point you may have nothing more than a name and brief description and you may or may not have cost information perhaps based on historical numbers.

Remember that one of the purposes of portfolio management is to make sure that, after mandatory work, only work with the highest value and best alignment will be authorized. While you may have some sense of the value of some of the work, you need solid information to go on if you are to compare the merits of the various work initiatives, establish linkages and priorities, and plan out the work for the year.

So this step becomes a matter of cutting work before prioritizing the remainder. For this you need to ensure that, at a minimum, you have a Value Proposition. Any item that does not have a Value Proposition, or better, should be cut now – unceremoniously!

The merit of calling for a Value Proposition is that it is a relatively simple document involving minimal effort to create and at least provides for the allocation of sufficient resources to create a proper Business Case or beyond. In other words, you have inserted a Value Proposition stage into the project life span. This may be very appropriate for potentially medium to large projects.

Investment Science

Investment Science and what you need to know

Investment science as it applies to portfolio management is an area of general management that attempts to quantify the value of projects and assets through analysis and various advanced mathematical techniques. The results provide the basis for making decisions with a view to optimizing the overall value of future business. These techniques include such calculations as return on investment (ROI), internal rate of return (IRR), cost/benefit analysis, cash flow or payback, and so on. These calculations can be quite sophisticated.

However, the problem is that where projects are concerned they all take place in an environment of uncertainty and rely on a lot of data that is only speculation at best and may or may not be optimistic. So, when it comes to assessing the value of projects or work in a portfolio for determining selection and priorities, what you need to know is:

- Is this portfolio component mandatory to satisfy government regulations, or corporate governance requirements? In which case we must do it anyway, sooner or later.
- How much benefit will we get from this proposed component?
- What is the nature of the benefit, is it purely financial, or are there other attributes that make it worthwhile, even though they are perhaps unquantifiable?

For example, suppose your company has only a very limited discretionary funding for the coming year. Further, suppose your choices are that you could invest in a new system that will improve your effectiveness in satisfying your customers, or in a new process that will improve your efficiency and output, or you could pave your gravel parking lot for the convenience of your customers and staff alike. What is the value of each and which should you choose? Perhaps the parking lot has been a long outstanding issue and you have been losing customers and staff as a result.

So the general questions to ask are:

- Is the option consistent with your strategic direction?
- How reliable are the respective Value Propositions, Business Cases and/or Project Charters? How reliable have they been in the past, given the nature of the business environment and the respective risks involved?
- In the case of each project, when will you get the benefit, not just the benefit enabler, i.e., the deliverable, but also the actual return on investment?
- How much will the component cost altogether, including production, marketing, ramp up and servicing?
- How risky is this whole project undertaking? Should you first invest in extra effort in the Business Case?
- If the project, i.e. the deliverable, is delayed, what will be the consequences?

Then you need to know:

- What resources will you need, at what level and when?
- And how will that fit into your available capacity?

To answer these questions you must take a corporate worldview. It may also be time to take a look back at previous projects and their success in generating benefits. The projects may have been very successful in terms of product delivered "On time, within budget and to quality standards", but were they fully deployed and actually result in the maximum intended benefits? If so, to what extent was that and for how long? Or were the benefits preempted by some competitor's product or service? If so, how can we avoid that in the future?

This may lead to further questions such as:

- Does your organization or department have the right technical delivery processes for developing and ***deploying*** products, such as conceiving, designing, detailing, creating, and launching?
- Does it have the right support processes relating to people and administrative support, such as people recruiting, motivating, training, administering, required essentially for managing people, product and project data?
- If these capabilities are not in place, should you be giving this first priority?

These sorts of questions are not easy to answer unless portfolio work is tracked, not just through project execution, but also through subsequent product marketing, deployment and disposal. Without this feedback, you really have no portfolio accountability.

Scoring competing projects

There are a variety of ways for "scoring" competing projects. The simplest approach is to plot the results of discretionary projects on a chart that compares one criterion against another. You then select those projects that fall into the area of the chart representing the highest values for both criteria. Obviously, this approach has only limited application.

Another approach is to assemble a team of "experts" and have them compare and rank projects on a subjective basis. In practice this is what frequently happens when the responsible steering committee carries out this function. The problem is that each individual usually has their own vested interest and the outcome is not so much in the best interests of the organization as a whole, but a reflection of who has the loudest voice.

Perhaps the most useful approach is to develop a set of criteria and weight each project by working through responses to each criteria and calculating a "bottom line" value.

Tips on Step 4 – Select the Work (Selection)

Having evaluated all of the necessary work and the credible opportunities and initiatives, the next step is to produce a shorter list of portfolio components from the work done in the previous Steps. The prioritization of this list may almost be self evident, but not always. So, for each of the components brought forward, you should have the following information:

- A statement briefly describing the Strategic Plan as one basis of reference
- List of evaluated components, assembled in categories if or where applicable
- A Value Proposition, Business Case or Project Charter (in the case of an on-going project), documentation that reflects the justification in terms of benefits, as well as cost time and risk considerations
- A value score for each component
- Graphical representations where these help to clarify relative standings
- The resources required for each component
- Recommendations resulting from the evaluation Step and/or from the sponsoring Client or Customer

As a result of this Step you will end up with a list of categorized, evaluated and selected portfolio components, together with a set of recommendations for subsequent Steps.

Secondary Selection criteria for screening

In a sense, you have developed a "first cut" selection basis for projects when you developed your portfolio Categorization in Step 1 earlier, and subsequently when you worked through the follow-on Steps of Identification and Evaluation. That is you looked at where you are, the projects that you need to implement to get to where you want to be, and the respective needs of other clients that you serve.

In the course of this process, we have emphasized that projects for inclusion should be:

- Subjected to a screening or selection process that is formal and consistent
- Based on a viable Value Proposition for small projects or Business Case for medium and large projects
- All consistent with your organization's strategic direction, and/or your department's goals, objectives and other identified criteria

The concept of screening is shown graphically in Figure 4. Note that a project, particularly if medium to large, could pass the Business Case criteria but on further scoping and feasibility planning, it could still be rejected from actual implementation.

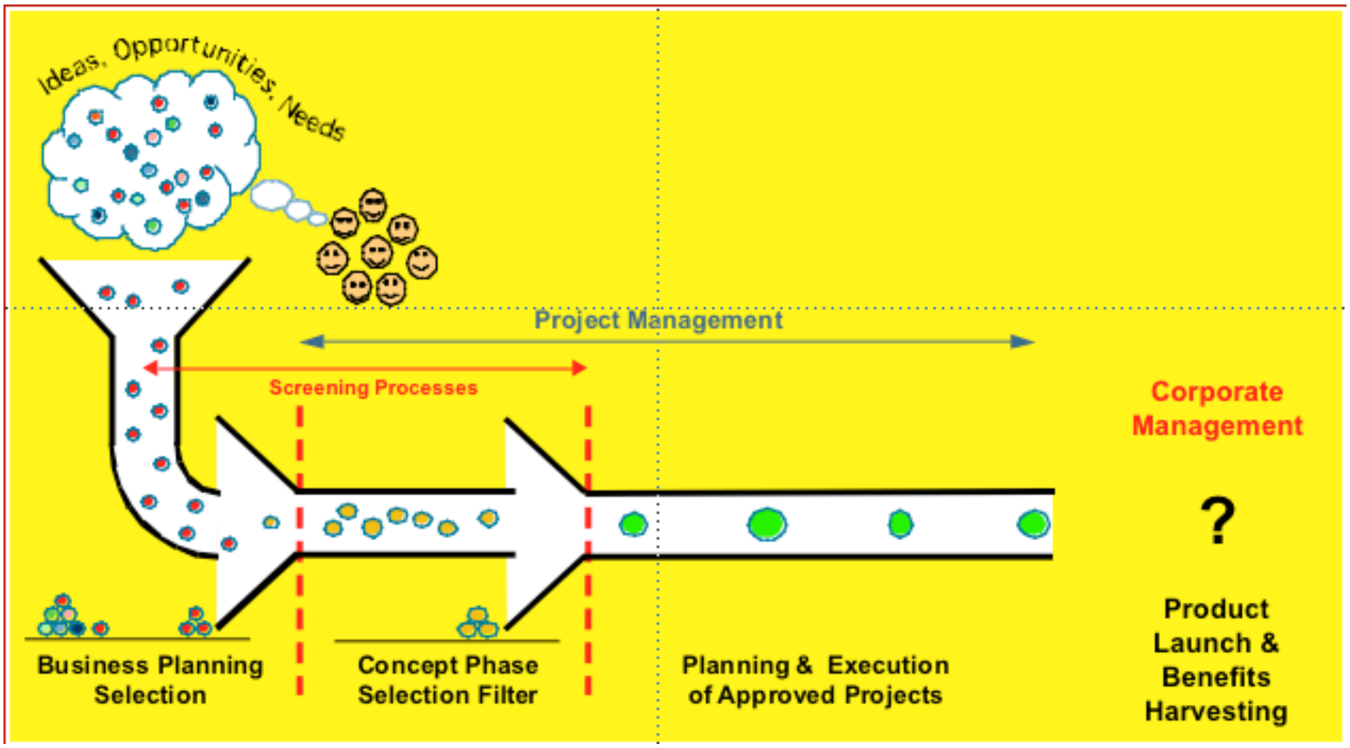

Figure 4: The concept of project screening

However, at this point, for purposes of focusing on the short term, i.e. your next year's work, you may now wish to establish a hierarchical selection list to help with the next step of prioritization. That is, your work list will be submitted to your Steering Committee (or a selection committee made up of functional department representatives) and to facilitate their decisions, your projects will be assembled according to the following hierarchical listing:

1. Government regulatory requirements
2. Need to satisfy public safety concerns
3. Operational efficiency improvements
4. Environmental improvements or public relations opportunity
5. New business or economic opportunity
6. Projects that are "morally right" but with benefits difficult to quantify

The distribution of resources across these groups will be established in a subsequent Balancing Step (Step 6). However, within each of these groups you can now select projects for consideration according to your established criteria, or perhaps specific group criteria as appropriate, such as:

- Cost/benefit analysis
- Economic analysis
- Cash flow or pay-back analysis
- Financial sensitivity to risk, or
- Some other measure of benefit such as contribution to corporate image, etc.

Coming next

In Part 5 we will provide tips on Steps 5 to 7.