# Project Portfolio Governance Guidelines
# (But are they complete?)

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**A review and commentary of a recent publication *Directing Change*, by the Association of Project Management, UK, 2004.**
**Note: US spelling has been adopted throughout.**

## Introduction

The subject of managing corporate portfolios of projects, otherwise known as "Project Portfolio Management" (PPM) is a hot topic on the circuit these days. Perhaps this is not surprising since more and more companies are using the project management discipline to manage multiple projects with finite resources in a competitive environment – but with only limited success. The problem is, how best to improve results?

Now, the Association for Project Management (APM), UK, has recently issued a valuable little booklet designed to address exactly this issue. It is called "Directing Change: A guide to governance of project management." Best of all, it is available free of charge by downloading it in PDF format from the APM web site.[1] And the APM is unequivocal about the guide's importance. In the first line of the Foreword, the President of APM, Sir Bob Reid, asks rhetorically: "How should those governing organizations oversee management of projects?" To which the emphatic answer is "This guide provides the answer."!

The foreword goes on to explain:

> "The discipline of project management has come of age. The body of knowledge is well defined, skill requirements can be assessed and methods are codified. Good practice in directing and managing project work is increasingly evident. However, in many organizations there remains a gap in the governing surveillance of project activities. Responsible practice requires that this gap be eliminated.
>
> "The guide applies standard governance requirements to your project portfolio. Following a structured approach it lists 42 questions which boards of directors, or their equivalents, should ask to satisfy themselves and their stakeholders.
>
> "It is short and to the point. It applies in most types of organization, across all sectors. It will help improve your corporate performance, reduce shocks at boardroom level and avoid hardship to stakeholders.
>
> "We commend its wide adoption."[2]

However, it should be noted that:

> "This guide is intended solely to provide practical guidance relating to the establishment of good governance of project management. This guide is not intended to comprise advice on which you may rely in order to ensure compliance with any legal obligations regarding corporate governance. All liability is excluded in respect of any loss or damage which may arise in connection with the use of or reliance on any information contained in this guide."[3]

Our question is: "While this is all sound advice for managing a collection of projects, does it fully serve the stakeholders', that is, the shareholders', best interests?" We think it falls short and explain why. But first, let's examine the booklet's content.

**The guide's purpose**

According to the guide its purpose is to:

> "Influence directors and others to adopt excellent practices regarding the governance of program and project management activities. This involves aligning the interests of directors, program and project teams and wider stakeholders. Adherence to this guide will help boards of directors to:
>
> 1. Assure themselves and others that robust governance requirements are applied across the projects managed in their organizations
> 2. Optimize their portfolio of projects
> 3. Avoid many common failures in project and program performance
> 4. Motivate their staff, customers and suppliers on the basis of better communication
> 5. Minimize risks to the organization arising from projects
> 6. Maximize benefits to be realized from projects
> 7. Assure the continued development of the organization."[4]

That is a very compelling list. We have numbered the bullets for reference later.

And the caveat to this section is:

> "This document does not seek to:
>
> - Duplicate or replace existing guidance and standards on corporate governance
> - Provide guidance related to non-project areas of business
> - Provide guidance on project management methods, other than those directly related to the purposes of sound corporate governance
> - Provide guidance on detailed methods that can be used to manage individual projects or programs."[5]

And further that:

> "This document's sub-title 'A guide to governance of project management' has been carefully chosen to distinguish it from other works concerning the governance of individual projects in the sense of their contractual and organizational arrangements."[6]

Well a guide is only a guide and not mandatory. Still, we echo those sentiments.

**The guide's introduction**

By way of introduction, the guide reckons that the principles it identifies apply to all medium-to-large organizations including private companies, government organizations and charities, but only to their project activities. In its view, effective governance of project management ensures that an organization's project portfolio is aligned to its objectives, is delivered efficiently and is sustainable. Governance of project management also supports the means by which the board and other major project stakeholders are provided with timely, relevant and reliable information.

By way of illustration of the scope of the guide, it provides the illustration shown in Figure 1. The diagram shows that the Governance of project management (GoPM) is, obviously, only a smaller part of total corporate governance and, by the same token, only a small part of project management. However, it does emphasizes that GoPM should not interfere with "most of the methodologies and activities involved with the day-to-day management of individual projects."[7]


**Figure 1: Governance of project management (GoPM)**

The guide identifies four main components of project management governance and eleven principles. The four components focus on the effectiveness and efficiency of:

A. Portfolio direction
B. Project sponsorship
C. Project management
D. Disclosure and reporting

These components are described more fully in the next page. However, the principles are described below.

***The eleven key principles[8]***

1. The board has overall responsibility for governance of projects
2. The roles, responsibilities and performance criteria for the governance of project management are clearly defined
3. Disciplined governance arrangements, supported by appropriate methods and controls, are applied throughout the project life cycle
4. A coherent and supportive relationship is demonstrated between the overall business strategy and the project portfolio
5. All projects have an approved plan containing authorization points at which the business case is reviewed and approved. Decisions made at authorization points are recorded and communicated
6. Members of delegated authorization bodies have sufficient representation, competence, authority and resources to enable them to make appropriate decisions
7. The project business case is supported by relevant and realistic information that provides a reliable basis for making authorization decisions
8. The board or its delegated agents decide when independent scrutiny of projects and project management systems is required, and implement such scrutiny accordingly
9. There are clearly defined criteria for reporting project status and for the escalation of risks and issues to the levels required by the organization
10. The organization fosters a culture of improvement and of frank internal disclosure of project information

11. Project stakeholders are engaged at a level that is commensurate with their importance to the organization and in a manner that fosters trust.

Note that the term "board" used here refers to the organization's board and not to any "project board" and that, as we indicated earlier, these principles contemplate multiple projects, i.e. a portfolio of projects, rather than any single large project.

More importantly, note that these principles go to the heart of the culture of the organization and its level of maturity.

**The four components of project management governance**

The four components of project management governance support the eleven principles above, according to the guide, by asking four sets of questions. These questions are intended to help decide what actions, if any, should be taken to support the set of principles. They all focus on the *effectiveness and efficiency* of the four components listed. However, the questions should be applied with intelligence and appropriate delegation of responsibility combined with monitoring of internal control systems.

The four sets of questions are paraphrased for brevity below. For the full text, refer to the complete guide. The original questions refer to either the "organization" or the "board" but either way the intent is management at the most senior level, whatever the type of organization. These questions represent significant responsibility and in considerable detail, so for any but a few projects in a portfolio, a *project portfolio office would seem highly desirable*.

***A. Key questions pertaining to Portfolio Direction*** [9]

1. Is the organization's project portfolio aligned with its key business objectives?
2. Are the organization's financial controls applied to both individual projects and the portfolio as a whole?
3. Is the project portfolio prioritized, refreshed and pruned so that they continue to support?
4. Does the organization discriminate correctly between activities that should be managed as projects and those that should be managed as operations?
5. Has the organization assessed the risks, including corporate failure, associated with the project portfolio?
6. Is the project portfolio consistent with the organization's capacity?
7. Does the organization's engagement encourage a sustainable portfolio through:
    a. Its sources of finance?
    b. Its project suppliers?
    c. Its customers?
8. Has the organization considered the impact of its project portfolio on its ongoing operations?

***B. Key questions pertaining to Project Sponsorship*** [10]

1. Do all projects have competent sponsors?
2. Are sponsors accountable for:
    a. The business case and do they own and maintain it?
    b. The realization of benefits?
3. Do project sponsors:

  a. Devote sufficient time to their project?
  b. Regularly track their projects through their project managers?
  c. Provide clear and timely directions and decisions?
  d. Ensure that project managers have sufficient resources with the right skills?
  e. Adequately represent the project throughout the organization?
4. Are the interests of key project stakeholders aligned with project success?
5. Are projects closed at the appropriate time?
6. Is independent advice used for appraisal of projects?

### *C. Key questions pertaining to Project Management*[11]

1. Do all projects have clear critical success criteria and are they used to inform decision-making?
2. Is the organization satisfied that its project management processes and tools are appropriate for its projects?
3. Do the people responsible for project delivery, the project managers, have clear mandates, sufficiently competent, and the capacity to achieve satisfactory project outcomes?
4. Are project managers encouraged to develop opportunities for improving project outcomes?
5. Are key governance of project management roles and responsibilities clear and in place?
6. Are service departments and suppliers able and willing to provide key resources tailored to the varying needs of different projects and to provide an efficient and responsive service?
7. Are appropriate policies in place for issue, change and risk management practices?
8. Is authority delegated to the right levels for balancing efficiency and control?
9. Are project contingencies estimated and controlled in accordance with delegated powers?

### *D. Key questions pertaining to Disclosure and Reporting*[12]

1. Does the organization receive timely, relevant and reliable:
   a. Information on project progress?
   b. Forecasts, relative to the original business case?
   c. Information on significant project-related risks and their management?
2. Has the organization:
   a. Set threshold criteria for escalating significant issues, risks and opportunities?
   b. Set both key success drivers and key success indicators?
   c. Established a business culture encouraging open and honest reporting?
   d. Minimized the amount of reporting to essential requirements?
   e. Sought occasional independent verification of reported project and portfolio information?
   f. Set an effective policy supportive of whistleblowers in the management of projects?
3. Is the organization able to distinguish between project forecasts based on targets, commitments and expected outcomes?
4. Does the organization share project portfolio status with key stakeholders?
5. Where responsibility for disclosure and reporting is delegated or duplicated, does the organization ensure that the quality of information that it receives is not compromised?

The guide includes cross-reference tables that relate the foregoing GoPM principles to the requirements of both the UK Listing Authority's Combined Code, 2003,[13] and the Sarbanes-Oxley Act 2002.[14]

**A broader view**

The question that we asked at the beginning is: "Does this guide fully serve the stakeholders' best interests?"

In our view, the objective of any project, other than simple make-work, is to produce some form of product that provides some benefit – in this case to the organization. Moreover, in a strictly business sense, that benefit must not only be consistent with the organization's goals and objectives but also *exceed the cost of the whole project by a margin that makes it competitive with other potential projects in the portfolio*. So we find it quite remarkable that none of the Eleven Key Principles mentions "benefits".

However, we do find a mention of benefits in question B2b under ***Key questions pertaining to Project Sponsorship.*** This question asks: "Are sponsors accountable for the realization of benefits?" But can sponsors really be "accountable" when the product of the project is turned over to some other part of the organization to deploy and use? Sometimes, perhaps, but no always. However, we think a more important issue is: *Does the organization even try to track the benefits to validate that the assumptions upon which the portfolio is being managed are true?*

What appears to be needed is *a more holistic understanding* of project portfolio management. We suggest that a more complete picture is provides by a Project Portfolio Life Span (PPLS) that consists of the following five phased components, and not just the first three:

1. Identification of needs and opportunities (corporate fiscal planning)
2. Selection of best combinations of projects (project portfolio management)
3. Planning and execution of projects (project management)
4. Product launch and deployment of project deliverables (marketing and sales)
5. Realization of benefits (corporate due diligence and accounting)

By way of simple illustration, Figure 2 shows the first three phases of the PPLS.

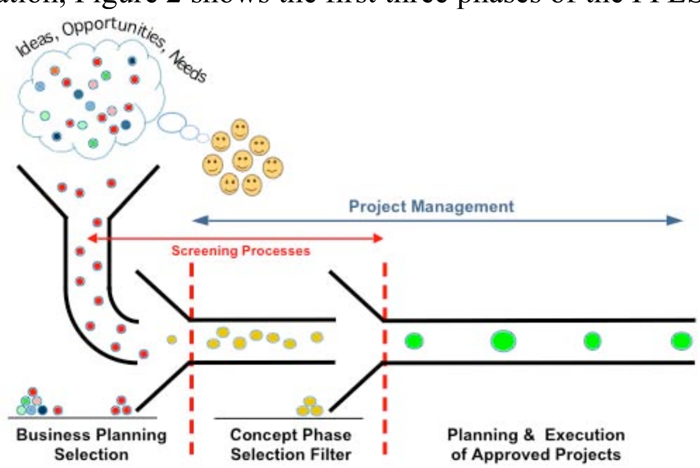


**Figure 2: First three phases of the project portfolio life span**

It seems to us that without collecting the data generated by the fourth and fifth phases and, to the extent possible, feeding it back to the project portfolio management process, the organization's responsibility is not complete. Without this feedback it is in no position to verify the success of its projects, validate its project portfolio management assumptions and generally become a real "learning organization". Figure 3 shows the fourth and fifth phases of the PPLS, the return of benefits to the organization and the key element of feedback of benefits information to the portfolio management function.


**Figure 3: Completing the project portfolio life span**

The true measure of project portfolio management success must extend to the evaluation of the question: *To what extent were the intended benefits from the projects in the portfolio actually obtained?* What is now needed is some form of satisfactory methodology for the tracking, analysis and feedback of benefit achievement.

Figure 4 illustrates the impact of a successful project portfolio in terms of future corporate cash flow.

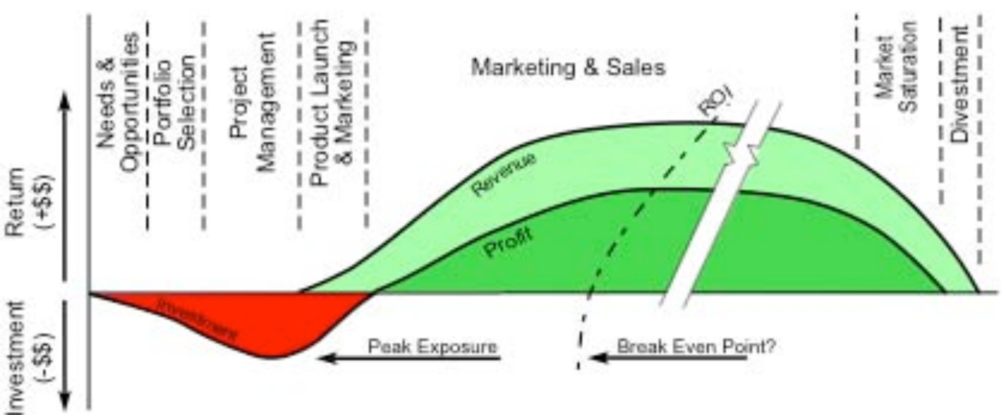


**Figure 4: Product life span cash flow**

Data on revenue and profit is normally collected through the financial accounting function, but is rarely identified with specific project initiatives. This is because the allocation and analysis of corporate financial data to this level of detail is not considered part of the finance department's responsibility, nor is it a practical reality, given their regulatory responsibilities.

However, for project portfolio analysis purposes *it is essential for data of this nature to be linked to specific projects.* Therefore, just as project management requires separate project cost accounting routines for effective project cost control, so should routines be developed somehow for project portfolio cost/benefit control. This might be on a project-by-project basis, or at least conducted on selected and representative projects.

Moreover, Figure 5 suggests that the nature of the benefits may well change through the post project period and that therefore prolonged periodic verification may be necessary. Whatever strategy is adopted to gather feedback on the actual benefits achieved, and their valuation, this is clearly a vital element of complete project portfolio management.

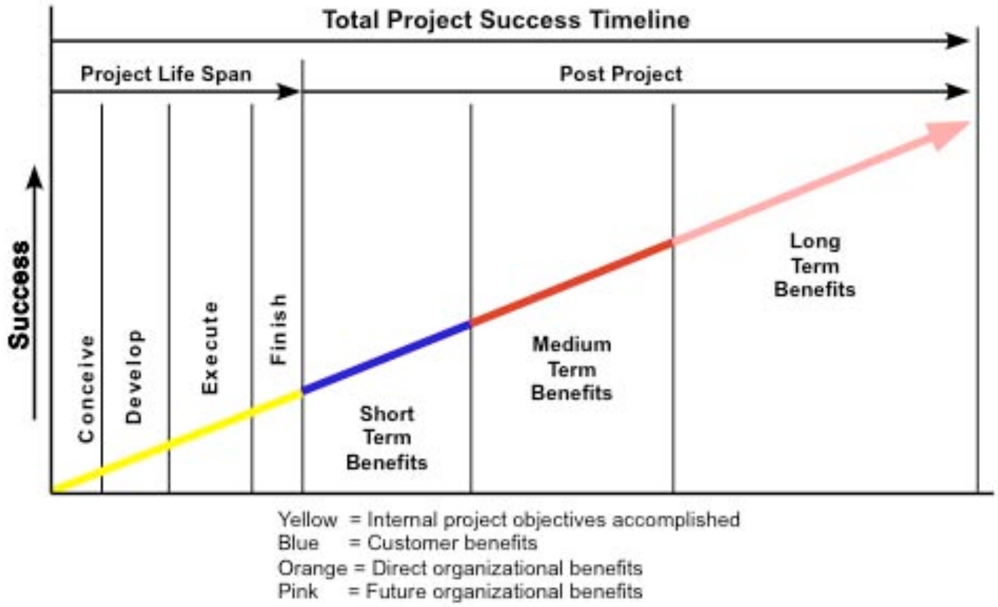


**Figure 5: Benefits change through the post-project period[15]**

It is evident that much work still needs to be done before project portfolio management can be categorized as a complete and solidly based function. But every step towards that end, such as the *Project Portfolio Governance Guidelines* issued by the Association of Project Management, is a step in the right direction.

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1 http://www.apm.org.uk/ (Site accessed February 4, 2005)
2 *Directing Change: A guide to governance of project management*, Association for Project Management, UK, 2004, p1
3 Ibid, p13
4 Ibid, p2
5 Ibid.
6 Ibid.
7 Ibid, p4
8 Ibid, p6
9 Ibid, p8
10 Ibid, p9
11 Ibid, p10
12 Ibid, p12
13 Ibid, pp14-15
14 Ibid, pp16-17
15 White, Barbara A. *Healthcare Project Management – A Prescription for Success for Healthcare Organizations,* Projects & Profits, ICFAI University Press, Hyderabad, India, December 2004, Figure, p36