Ten Steps to Comprehensive Project Portfolio Management – Part 1
An Introduction

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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 1 we will cover:
- Introduction
- Project Portfolio Management Terminology
- Whole Portfolio Process Overview
- Your Organizational Environment
- The Ten Steps

Introduction

Project Portfolio Management is the newest boy on the block, when it comes to the project management training circuit these days. Actually, it has been around for a few years, but is still not well understood in most circles and its place relative to project management itself is a subject of some debate. In fact, in 2006, the Project Management Institute ("PMI") issued *The Standard for Portfolio Management*, meaning of course, *The Standard for **Project** Portfolio Management.* So, there are those who would like to see it as an extension of project management expertise. However, we don't see it that way – rather, we see it the other way round. Project management is an essential tool of project portfolio management. But we are getting ahead of ourselves.

Much of the material, recommendations and suggestions outlined in this series of papers have been abstracted from the new content in the PortfolioStep™ Version 3.0 released by TenStep that we helped to develop. As TenStep's president, Tom Mochal, noted when he announced the new release:

> "The PortfolioStep framework is comprehensive and unique, especially in the way that it defines the annual business planning process where companies determine what work is going to be authorized for the following year. We also have unique concepts about the work that is managed in the portfolio as well as how to balance your portfolio of work to the optimum benefit of your company."

Tom also noted that this release is aligned with the new portfolio management standard from PMI but has also added a number of new concepts making the product much more comprehensive and broader than the PMI Standard. For practical and successful application of project portfolio management we believe that it is necessary to go further than simply aligning projects with corporate strategy. We believe that the success of a project portfolio is to be found in the benefits that the products of projects generate. In other words, the methodology must be more comprehensive than the ground covered by the PMI standard.

Of course, the PMI standard is a descriptive document issued as a "guide". While a methodology can be deduced from such a document, based on its description of inputs, outputs, techniques and so on, what most practitioners need is a consistent and definitive methodology. PortfolioStep™ Version 3.0 provides this methodology. PortfolioStep™ Version 3.0 can be generalized for a variety of project types, but to provide clarity, particularly where techniques and examples are given, the primary focus of PortfolioStep™ Version 3.0 is on information technology and related type projects.

Portfolio management is a business process that requires a set of detailed processes to be conducted in an interrelated continuous sequence. It facilitates decision making, through evaluation, selection, prioritizing, balancing, execution of the work, harvesting of benefits and feedback of results for process improvement. It presumes that the organization has a strategic plan, along with customary mission and vision statements, together with strategic goals and objectives.

It also presumes that no organization has sufficient resources to meet all of its business needs. This is true in the best of times. It certainly is even truer when times are tough. Even if your organization is a rare one that has all the money it needs, you seldom have the people capacity to complete everything you would like. The typical response to managing scarce resources against an unlimited demand is to come up with some type of prioritization process so that you only approve and fund the work that will provide the most value.

Project Portfolio Management Terminology

Many people are familiar with the term "portfolio management" in the financial sense. The term implies that you manage your money in a way that maximizes your return and minimizes your risk. This includes understanding the different investment alternatives available to you and picking the ones that best achieve your overall financial goals and strategy. One size does not fit all. The investment decisions you make when you are 30 are different from the ones you make when you are 60. In each case, you don't look at each investment in isolation, but in the context of the entire portfolio.

So, it is with project portfolio management, but before we begin we need to introduce several definitions with which project management readers may not be familiar. The following terms are defined in the specific context of project portfolio management.

Portfolio – a collection of projects, possibly including "Other Work". We'll explain this situation later.
Other Work – Work that is not characterized as a project or program but which management has determined it will include in the portfolio management process because of its call on the same resources.
Business Case – A key document in the early life of a project or program that describes the reasons and the justification for its undertaking based on its estimated costs, the risks involved and the expected future business benefits and value. It provides the basis for selection and authorization of further effort on a project's definition, planning and estimating.
Value Proposition – A quick one-page document briefly describing a potential project or initiative and its justification in terms of benefits. A very simplified form of Business Case and used for very early screening of larger potential projects.
Benefit – An outcome of change that is perceived as beneficial by a stakeholder.
Benefits Realization Management (BRM) – The process of organizing and managing, so that potential benefits arising from investments in change are actually achieved.
Component (i.e. component of a portfolio) – Any "Work" that the organization has determine it will include in the portfolio process. Such "Work" may be represented by the documentation of a Value Proposition; a Business Case; a Project Charter or Brief; Execution Performance Report; Work Order; Bug Report; or similar document that implies commitment of resources.
Categorization – The grouping of potential components into categories to facilitate further decision-making.
Executive – That part of a whole organization or Business Unit responsible for governance and stewardship, i.e., strategic planning, administering and managing their entire part of their organization.

Project Management – The management of projects including entities such as a Project or Program Management Office (PMO).
Operations – That part of an organization responsible for the on-going deployment of products and services and who are also responsible for realizing the business benefits from the products of projects.
Steering Committee – A group of "Executive-level" clients and stakeholders who are responsible for providing portfolio strategic guidance, prioritization and approval of "Work" for the portfolio and then monitoring the portfolio throughout the year.

Whole Portfolio Process Overview

A complete portfolio management process life cycle consists of four major sequential phases or activities. These are: ***Prepare; Plan: Execute;*** and ***Harvest***. There are several things worth noting about this sequence.

- **Firstly**, unlike a project that has a life span that is often misnamed *life* ***cycle*** (a project doesn't "cycle", it starts and it finishes), a project portfolio is an entity that does have a true *life* ***cycle.*** That's because the portfolio does get reviewed and its process repeated throughout the year and certainly on an annual basis.
- **Secondly**, project practitioners will be familiar with the sequence: ***Prepare; Plan: Execute*** (and deliver) as it applies to a single project. However, portfolio management starts much earlier in the game and, downstream, must actively deploy project outcomes and rigorously garner the expected improvements.
- **Thirdly**, the outcomes of portfolio projects are not just deliverables, they are ***enablers*** – enablers of future ***benefits*** derived through "harvesting".
- **Fourthly**, the harvesting activity includes the reaping of the benefits, gathering data on the actual benefits realized, assessing value and feeding the findings back into the preparation phase of the portfolio process. All of this is to establish continuous improvement, and thus completing the portfolio cycle.
- **Fifthly,** not many organizations conduct this entire process as just described, especially including rigorous harvesting. This is simply because of the difficulties of managing across major organizational boundaries in traditional "stovepipe" structures.

In a sense, the four major phases of portfolio management described above may be likened to four levels of organizational maturity. Only those organizations that actually conduct all four phases successfully, and are truly effective in modifying the input strategies as in "continuous learning", have reached the highest level of project management organizational maturity.

Your Organizational Environment

The major organizational boundaries that we just spoke of are those between the classical divisions in most organizations. These divisions that make up the organization may be characterized in three parts as follows.

1. **Executive**: That part of a whole organization or Business Unit that is responsible for stewardship, i.e., strategic planning, administering and managing the whole unit. It includes such roles and responsibilities as administration, business development, finance, human resources, information technology, legal, marketing, and so on. It should also include the responsibilities of portfolio management.

2. **Project Management**: In its general sense, that part of an organization 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. This part of the organization may include program management or a project or program management office depending on how this part of the organization is structured.
3. **Operations**: That part of the organization responsible for the on-going deployment of products and services and realizing the corresponding business benefits.

We have highlighted the main parts of an organization in this way because each of these groups has a very different management responsibility and perspective that you need to understand to see how portfolio management fits into the overall scheme of things. It is also important to understand that without the full cooperation of all three, it is not possible to reap the full value of portfolio management.

Of course, if portfolio management is being deployed on a limited basis in a single department, these three parts may all come "under one roof" so to speak, and cooperation may be easier to manage. However, the different perspectives will still exist in the minds of those with the different roles within the department.

While we have suggested that the Executive, or senior management, should be responsible for portfolio management, that may be a hard sell because any additional management is an overhead and costs money. Moreover, the Executives of most organizations are typically encumbered with scarce resources, too little time and too much information. This is particularly true when they are faced with more project proposals or opportunities than they can handle.

In many organizations, no one quite knows how many projects are currently active, the "project pipeline" is getting choked, management is fragmented and projects are not getting done. In all of this, the chances are that optimum value is not being obtained from the whole effort. In short, no one is making value assessments about what the projects will yield and whether all of this is pointing in the right direction for the organization.

So the tendency is to push the responsibility over to the project or operations levels. This may be sound on a trial basis, but sooner or later this will not be sufficient. That's because a very important factor in deriving success, is the type of people who make the selection decisions. Portfolio management is very senior work because the purpose is to yield a focused corporate payoff and gain superior or competitive advantage.

Portfolio management is not just about selecting and monitoring individual projects – it's about keeping the whole of the work of the portfolio in perspective, focused and optimized.

The Ten Steps

The major phases of the project portfolio management process can be broken down into ten logical "steps" ("phases" or "stages" depending on your preferred terminology). However, before these make sense, and before you start the planning and executing portions of the process, you must have a clear understanding of two fundamental areas:

1. You must grasp the nature and extent of the work that you want to manage as a portfolio. Once this is defined, you will have established the scope of your portfolio
2. You must reach agreement on the things that are important to your organization so that you have

the context to make work prioritization and balancing decisions

Ten steps take all of this into account and they do not assume that you have any of the prerequisite information ahead of time. The following table, Figure 1, shows each of these steps, where the responsibility falls in the organization.

Step	Description	Responsibility
1	Portfolio Setup & Categorization	*Executive Management & Portfolio Management*
2	Identify Needs & Opportunities	*Portfolio Management*
3	Evaluate Options	*Ditto*
4	Select Work	*Ditto*
5	Prioritize Work	*Ditto*
6	Balance and Optimize the Portfolio	*Ditto*
7	Authorize the work	*Ditto*
8	Plan & Execute Work (Activation of Projects, Programs, & Other Work)	*Project Management*
9	Report on portfolio status	*Project Management & PMO*
10	Improve the portfolio (Launch products, harvest benefits, feedback and change strategy)	*Operations Management, Executive Management, & Portfolio Management*

Figure 1: The complete Portfolio Management Process in Ten Steps

As you can see from the table, managing a business portfolio ultimately involves the whole organization if the true value of the portfolio management effort itself is to be realized in the form of valuable benefits. By the way, each of the steps listed in the table are consistent with the sequence recommended by the Project Management Institute's Standard for Portfolio Management.

You can see the relationship between the ten steps and the project portfolio life cycle in the following chart, Figure 2:

Figure 2: The Ten Steps in relation to the Portfolio Life Cycle

Coming next

In Part 2 we will examine the Project Portfolio Management Life Cycle and its ten steps.