

The View From Above: THE POWER OF PORTFOLIO MANAGEMENT

Like its counterpart in the financial sector, project portfolio management can be a powerful tool to ensure an organization's investments work together effectively and deliver true business results.

In today's fast-paced business world, success often comes down to that elusive balance between risk and opportunity—which becomes even more complex as the numbers, scopes and budgets of projects and programs increase. Organizations are increasingly recognizing that one of the most effective ways to ensure projects and programs deliver expected value for the organization is through formal portfolio management. Over half of the respondents in the 2012 PMI *Pulse of the Profession*[™] reported frequent use of portfolio management at their organizations, an increase of five points from the previous study.ⁱ Similarly, 53 percent of respondents in a 2012 PwC survey reported using portfolio management, with the highest adoption rates among organizations in retail, insurance, auto, banking and capital markets, telecommunications, manufacturing, energy and defense.ⁱⁱ

"Portfolio management lets executives look holistically across the group of projects to get the pulse of the portfolio's return on investment (ROI) and strategic alignment. You can't do that when you look at each project as an isolated event," says Marc Crudginton, PMP, Vice President, Information Security at Woodforest National Bank. The 33-year-old organization is based in The Woodlands, Texas, USA, with more than 750 branches in 17 states across the United States.

By looking across the entire portfolio, organizations can oversee and balance risk among projects and programs that may have different objectives but as a group contribute to the company's overall strategic plan.

"Portfolio management is about choosing the right projects and programs for the corporate strategy. It's how you translate your strategic vision down to the individual projects to achieve the greatest potential ROI."

~ Raed Skaf, OPM3 Assessor, PMP

Executive Manager of the Project Management Office (PMO) and Budgeting | Mobily | Riyadh, Saudi Arabia.

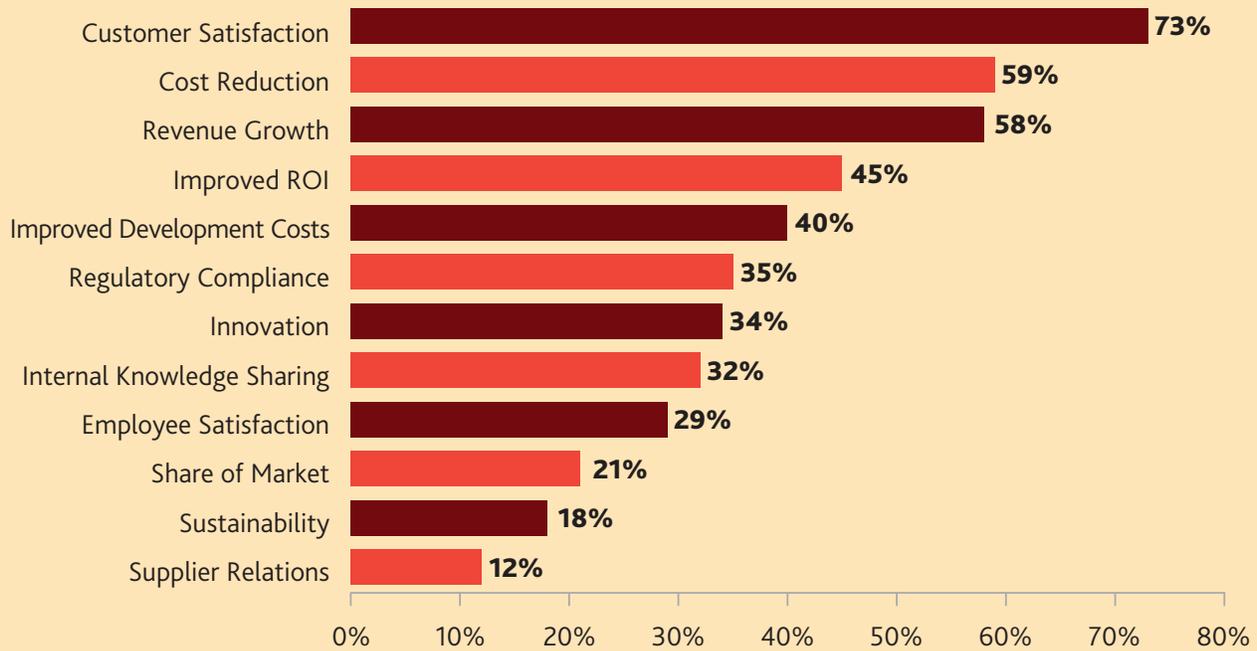
The ability to effectively execute on strategy through projects and programs takes on even greater importance as companies try to shake off the lingering after-effects of the worst global economic meltdown in decades.

"In this tough economy, it's more important than ever to have good portfolio management," says Paul Bosco, PMP, Director of Acquisition and Project Management at the U.S. Department of Energy, Washington, DC, USA, and a member of PMI's Global Executive Council. "You need to be able to assess the risk of any given project against your current portfolio before you commit to any investment."

Smart executives are beginning to realize current operations represent what their organizations are today, while their portfolio of projects and programs represents what they will be in the future. If they cannot see their strategy reflected in their portfolio, they have no chance of achieving that strategy.

WHY DO ORGANIZATIONS PRACTICE PORTFOLIO MANAGEMENT?

Respondents to PMI's *Pulse of the Profession™ In-Depth Report: Portfolio Management* cited customer satisfaction, cost reduction and revenue growth as the top reasons to practice portfolio management.



Source: ©2012 Project Management Institute, Inc. *Pulse of the Profession™ In-Depth Report: Portfolio Management*, November 2012. PMI.org/Pulse

By looking at the whole picture rather than just its individual parts, executives can better balance the risks of each project and the overall risk to the organization. They may be far more willing to take on a high-risk/high-reward project, for example, if the portfolio is anchored by other less risky projects with a more certain return.

Such a high-level view enables executives to not only pinpoint possible trouble spots, but also find the best opportunities.

“Good portfolio management provides clarity in the sea of good ideas. There may be a lot of ‘good’ projects, but understanding which ones would be ‘best’ allows companies to leapfrog over the competition.”

~ **Lori LaBeau**

Lead Portfolio Project Manager for Enterprise Portfolio Management | Vantiv | Cincinnati, Ohio, USA

Vantiv handles more than 12.9 billion payment transactions and processes approximately US\$426 billion in volume annually.

The payoff for implementing robust portfolio management is clear: Quite simply, it delivers results. **Organizations that described themselves as highly effective in portfolio management outperformed their less effective counterparts in meeting project objectives as well as business intent and forecasted ROI**, according to PMI's *Pulse of the Profession™ In-Depth Report: Portfolio Management*.ⁱⁱⁱ

Similarly, the PwC survey also found that use of portfolio management leads to increases in key performance indicators including quality, scope, budget, schedule and business benefits.

There is also potential for even greater gains. Portfolio managers who participated in PMI's *Pulse of the Profession™ In-Depth Report: Portfolio Management* speculated they could increase the number of projects completed on time, on budget, achieving objectives and ROI goals by roughly one third if portfolio management was practiced more effectively.

	Highly effective at portfolio management	Minimally effective at portfolio management	% Increase
AVERAGE PERCENTAGE OF PROJECTS:			
Completed on time	68%	50%	36%
Completed on budget	64%	54%	19%
Met original goals and business intent	77%	65%	18%
Met/exceeded forecasted ROI	62%	48%	29%

Source: ©2012 Project Management Institute, Inc. *Pulse of the Profession™ In-Depth Report: Portfolio Management*, November 2012. PMI.org/Pulse

“When you have a strong portfolio management process, you can choose the highest-priority projects and give them the oversight and resources they need to succeed,” Mobily’s Mr. Skaf says. “That mitigates many project risks from the start and delivers greater value for the investment.”

THE PMO CONQUERS THE SKEPTICS

Despite the quantifiable benefits of portfolio management, many organizations fail to appreciate the competitive edge it can deliver. PMI’s *Pulse* report shows only 21 percent of organizations use portfolio management to increase share of market and just over half believe it helps them grow revenue.

“Many executives could realize great benefits if they took a systematic approach to the mix of projects within the portfolio,” says Vantiv’s Ms. LaBeau.

That skepticism carries a heavy downside. The *Pulse* report shows portfolio management is most successfully implemented if executives at the highest levels understand and support it.

Armed with detailed knowledge of projects and programs and how they align to organizational strategy, PMO staff also has the project management expertise to predict risks and outcomes. Both skills transform the PMO into a powerful force for demonstrating value to the executive suite.

That, in turn, can help improve project results. At companies where senior management reported at least a moderate understanding of portfolio management, 59 percent of the projects successfully met or exceeded the anticipated ROI, according to the PMI report, versus 51 percent at organizations where executives had a limited comprehension.

Opening up executive minds often falls to the PMO, given its prime spot to build—and demonstrate—the value of portfolio management. Nearly **60 percent** of respondents in the PMI survey said a mature PMO is a major success driver of effective project portfolio management.

Within many organizations, there remains an inadequate grasp of the strategic nature of portfolio management versus the day-to-day concerns of projects and programs.

"Project risks are about meeting cost, schedule and budget," Mr. Skaf of Mobily explains. "Portfolio risk is about making sure the projects you choose allow you to achieve the strategic vision."

"That deficiency can fracture the alignment between project and business goals. Instead of looking at the strategic benefits of individual projects throughout their life cycle, companies with immature portfolio management focus on profit and loss projections," says Ms. LaBeau.

"Strategic portfolio management is more than approving a new project to start; it is about assessing the value of the project as it moves forward," she says. "Excluding review(s) of the changes during the project life cycle could have serious impact on the profitability of the end product or service."

A strong PMO with portfolio responsibility can fill that gap and help executives better align their strategic vision with portfolio decisions, says John Leavitt, PMP, PgMP, Senior Schedule Analyst/Assessor at Science Applications International Corporation, a scientific, engineering and technology applications company, Kennedy Space Center, Florida, USA.

"If you only have people with business acumen but no project management experience at the portfolio management table, they will always go to ROI," he says. "But if they have someone on the team who understands project management, they will take into account risk management and mitigation concerns."

It is only through this kind of integrated approach that organizations can achieve full benefits realization, whether a project aims to boost the bottom line or comply with a regulation.

Understanding the balance between portfolio risks and project delivery is where PMO leaders can make the biggest difference, says Ms. LaBeau. "The PMO's job is to provide visibility and transparency to the leadership team and to show them key metrics around issues such as resource availability and bottlenecks," she explains.

Even at organizations that invest the time and effort to hone their project delivery skills, executives often lack true command of portfolio management. The PMI *Pulse of the Profession™ In-Depth Report: Portfolio Management* found that a full **65 percent** of portfolio managers rated their portfolio management maturity as merely "developing," and **26 percent** rated their portfolio management practice as immature.

PORTFOLIO MANAGEMENT IN ACTION

Organization: Department of Energy, Washington, DC, USA

Sector: Government

Lesson Learned: An impartial PMO leader helps choose the best projects for the organization so it can lower risks and improve benefits realization across the portfolio.

As head of the Office for Acquisition and Project Management for the U.S. Department of Energy (DoE), Paul Bosco, PMP, sees himself as an impartial adviser, laying out the benefits and risks of potential projects—before big investment decisions are made.

"I like to think of the PMO as the conscience of the department," he says.

Mr. Bosco assesses the risks associated with any project over US\$100 million and determines whether it aligns with the rest of the portfolio and whether it is affordable. Then he suggests the best course of action to the leadership team. His

recommendations may not always sit well with individual stakeholders, who often have a vested interest in which projects move forward. "But that's a good thing, as all positions need to be vetted," he argues.

"I'm an independent third party," Mr. Bosco says. That means he doesn't feel conflicting pressures to support one project over another and can give the portfolio team the educated but unbiased view it needs to make the best decisions at the time.

This is particularly helpful when powerful stakeholders are pushing projects forward, he says. In March 2012, for example, Mr. Bosco supported a position that helped organizational leaders decide that rather than funding construction of two US\$6 billion nuclear facilities simultaneously, it should build them one at a time.

In advocating for the split, Mr. Bosco pointed out that both projects were high risk and completing them simultaneously would take over a decade. Done sequentially, one project would get completed sooner. Both facilities should be completed in the allotted timeframe, but with lower risk of funding turbulence and commodity price fluctuations.

"In construction, time equals risk," he says. "If you can accelerate execution, you minimize risks and lower your costs."

The decision also gives the DoE one fully operational nuclear facility in about half the time.

One of the project sponsors may not be happy about the choice, but the role of the PMO is to offer objective assessments. "In the end, the acquisition executive and/or senior leaders make decisions," Mr. Bosco says. "I provide guidance to help them make the best-informed choice."

THE RIGHT PEOPLE ON THE RIGHT PROJECTS

Stocking the portfolio with the right projects is only half the battle. Just as important is ensuring that the company has the right talent in place to execute them.

"If you don't have the people to deliver to your standards of excellence, you lower the value of your entire portfolio," says Christian Risom, CEO of Shape A/S, a software applications developer in Copenhagen, Denmark.

Some forward-looking companies are treating the talent pool as a portfolio, leveraging many of the same portfolio management skills to balance risk on the human resources side. For example, Siemens, a member of PMI's Global Executive Council, classifies each of its projects into one of six categories based on factors such as size and complexity. The company then places project managers into four corresponding levels based on their credentials and experience. Project managers lead projects appropriate to their level, and move up the ladder by leading lower-level projects, completing development courses and performing well on annual competence checks.

Mr. Skaf of Mobily agrees that having projects and resources in sync across the whole portfolio helps put the focus on the make-or-break projects. "A well-managed portfolio ensures better use of resources for the highest-priority projects," he says.

"As part of the project evaluation criteria, portfolio executives should analyze whether the skills of team members align with the company's strategic goals and identify any gaps," says Rebecca Porterfield, PMP, Director of Process and Project Management at Performance Trust Capital Partners, a financial services company based in Chicago, Illinois, USA.

Ms. Porterfield regularly meets with Performance Trust Capital's Chief Technology Officer (CTO) to determine if:

- The IT team has the skill set to deliver current projects
- The team requires training to deliver future projects
- The project should be outsourced

She and the CTO also look across the project portfolio, adjusting schedules to avoid overburdening some resources while others remain idle. "If we have three database projects, we spread them over the course of the year, so we don't get a resource bottleneck," she says.

Ms. Porterfield also helps the CTO balance short- and long-term strategic goals so resources can be freed up and trained to take on important projects. By integrating talent management into the portfolio decision-making process, she mitigates the risk that her top people are getting shuffled among less-vital initiatives.

One of the company's current strategic IT goals, for example, is to move toward more web-based applications. To ensure the technical team is up to the task, it takes programming and web-development courses. "When we pencil in these longer-range projects and align them with our current talent management strategies, it lowers our risks," she says.

PORTFOLIO MANAGEMENT IN ACTION

Company: Aon plc, London, England

Industry: Insurance

Lesson Learned: Talent management reduces risk across the portfolio and helps improve ROI on individual projects.

Aon plc knows its projects are only as good as the people working on them. "Resource availability is our biggest risk," says Jennifer Buckley, Director of Portfolio Management for IT operations at the global insurance broker.

Ms. Buckley oversees an IT operations portfolio of 200 projects, 40 percent of which are active at any given time. To make sure its best team members are available for its most important projects, Aon executives conduct portfolio management and review sessions aimed at syncing people and projects.

As part of this process, Ms. Buckley holds weekly meetings with business unit leaders to review troubled projects that are not on track to deliver expected goals. She also holds quarterly planning meetings to identify challenges in aligning the project portfolio with strategic goals. "If we address these risks up-front, we can get our projects to green faster," she says.

The problem is that individual business unit leaders approve projects, which then land in a project backlog in the IT department because there are not enough people to manage them.

To address this challenge, Ms. Buckley implemented an escalation process that requires a project to have a team in place before it is approved. If there are not sufficient resources available but the project is a high priority, she shows the leadership team the current portfolio, along with potential options. Recommendations may include delaying the project, reducing the scope or combining similar projects with common goals.

Although the process is still new, Ms. Buckley is already reporting positive results. "We've been able to redirect people to high-priority projects and make better use of our resources," she says.

IN SEARCH OF BALANCE

A portfolio is not a static entity. Every addition, accomplishment, failure and change shifts the balance. To maintain control and balance, executives must regularly assess the portfolio, identifying struggling projects early enough to fix them and killing those that no longer align with organizational strategy.

"The portfolio is a living thing, and you need to periodically reanalyze whether the projects you have going make sense," says Mr. Crudgington. In his previous role at Advantage Sales and Marketing, he conducted a risk analysis of the company's portfolio of IT applications. Posting more than US\$1 billion in revenue with over 1,200 clients (including Unilever, Mars, Johnson & Johnson and GlaxoSmithKline), the company was looking to identify short- and long-term risks and opportunities for improvement.

Every application was rated on a scale of one (low risk) to five (high risk), based on its potential to fail and the consequences if it did. The company's order-management system project was given a five, for example, because it is the company's lifeblood. "If that went down, we'd be out of business in three to five days," Mr. Crudgington explains.

After the risk analysis showed the IT team was not totally confident in the system's disaster-recovery capability, executives supported a project to implement a better backup.

Had the company not assessed the entire portfolio with an eye to identifying hidden risks, it might not have uncovered the issue until it was too late.

Along with avoiding disaster, portfolio risk assessments can highlight opportunities for improvement. When the leadership team implements a regular portfolio review step, it often detects duplicate efforts and initiatives that no longer justify support, Mr. Crudgington says. Getting rid of those unproductive projects means the company has more money and resources to focus on strategic goals. "When you take the time to do an annual risk review, you lower your risk profile and save money by making your portfolio more efficient," he says.

PORTFOLIO MANAGEMENT IN ACTION

Organization: Shape A/S, Copenhagen, Denmark

Industry: Technology

Lesson Learned: Being selective about what goes into the organization's portfolio helps drive business success.

At Shape A/S, the portfolio selection process is fairly straightforward. "If a project is one we like and it fits into our portfolio, then we take it. If it doesn't, we turn it down," says CEO Christian Risom.

The company will only accept a project if it aligns with at least two of four portfolio criteria:

1. Does the project include a feature set that will deliver value to the customer?
2. Does the project provide interesting brand or marketing opportunities that deliver value to the company?
3. Does it suit the current human resources on the team?
4. Does the client believe the deliverable will be profitable?

Based on the responses, all potential projects are given a red, yellow or green rating. Company leaders focus 80 percent of their time on landing the green projects, even if it occasionally means saying no to a big client, Mr. Risom says.

In 2011, for example, Shape turned down an application project deemed too "gimmicky" and incapable of delivering a demonstrable ROI. Saying no to such projects is how Mr. Risom balances the risks and opportunities across the company's portfolio. "I'm making sure our portfolio is full of projects that we believe have the most potential for success, which minimizes our risk and builds our brand," he explains.

Declining the "gimmicky" project allowed Shape to take on a project for Songkick, a British company with a global presence that tracks bands, concerts and music venues online. The company wanted Shape to build an app that would complement its website, allowing users to track their favourite bands or venues on mobile phones or tablets.

The Songkick project met all of Shape's criteria: The app delivered valuable features to users, it had the potential to be profitable, and, because Shape had not taken on other less-attractive projects, it had the developers to deliver it.

The project proved a huge success. It was downloaded more than 100,000 times during the first two weeks of its release in June 2011, and Billboard magazine named it "app of the month."

Having that kind of high-profile, cutting-edge project in Shape's portfolio also generates word of mouth, which leads to more business and ensures the company can land the best talent.

"If you want top people, you need top projects," Mr. Risom says. "When they see our portfolio, they see how successful we are, and they know they will be part of something they can be proud of."

CONCLUSION

According to PMI's *Pulse of the Profession™ In-Depth Report: Portfolio Management*, 62 percent of projects at organizations that described themselves as highly effective in portfolio management met or exceeded expected ROI. This marked a 29 percent increase over organizations that described themselves as minimally effective.

As organizations continue to face turbulent times, the ability to balance risk and opportunity across the entire portfolio becomes all the more critical. Portfolio management delivers that critical edge, allowing organizations to not only improve delivery, but to identify and drive greater value from strategic project investments.

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- i. *PMI Pulse of the Profession™*, PMI, 2012. Results based on a survey of more than 1,000 project, program and portfolio management professionals from around the world conducted in late 2011.
 - ii. *Insights and Trends: Current Portfolio, Program, and Project Management Practices*, PwC, 2012. Results based on a survey of 1,524 respondents from 38 countries and within 34 industries.
 - iii. *PMI Pulse of the Profession™ In-Depth Report: Portfolio Management*, PMI, 2012. Results based on a survey of 443 portfolio managers from around the world.