Why Should Project Portfolio Management Be Used?

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Why use Project Portfolio Management?

Introduction – Abstract

Project Portfolio Management (PPM) provides a framework to identify what projects best support the strategic objectives giving the business needed information to select the right projects at the right time increasing the organizations Return on Investment (ROI). Any organization that doesn't know the value and status of the projects they are working on, or what resources they have available to work on additional projects, needs to take a hard look at why they are not using PPM.

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What is Project Portfolio Management?

PPM provides executives with information about proposed work, resources, and strategic goals that is designed to guide them to select the best balance of projects for the organization, at the time the decisions are made. It also provides information about the state of active projects and resource usage to guide the executives as they monitor projects toward their eventual completion or cancellation.

Definition

According to the Project Management Institute (PMI, 2004):

> Portfolio Management: The centralized management of one or more portfolios, which includes identifying, prioritizing, authorizing, managing, and controlling projects, programs, and other related work, to achieve specific strategic business objectives.

Experts

Here's what other experts have to say about what PPM is:

In her *Computerworld* (2002) article, Project Portfolio Management, Melissa Solomon, tells us about organizing projects into a portfolio:

> Project portfolio management organizes a series of projects into a single portfolio consisting of reports that capture project objectives, cost, timelines, accomplishments, resources, risks and other critical factors. Executives can then regularly review entire portfolios, spread resources appropriately and adjust project to produce the highest departmental returns. (p. 52)

In their book, *Advanced Project Portfolio Management and the PMO: Multiplying ROI at warp speed* (2003), Gerald Kendall and Steven Rollins, tells us that managing a project portfolio is like managing a stock portfolio:

> Portfolio management ensures that the collection of projects chosen and completed meets the goals of the organization. Just as a stock portfolio manager looks for ways to improve the return on investment, so does a project portfolio manager. However, a stock portfolio manager would be embarrassed if he or she could not answer the questions, 'What is the value of my portfolio? How has the portfolio value changed since the last reporting period?' (p. 208)

Frank Siderio in his 2003, National Underwriter article, Manage IT projects like financial portfolio, tells us that; “PPM solutions give organizations a structure for planning and evaluating IT projects by requiring a business case for each project.” (p. 33)

Thomas Cappels, in his book Financially Focused Project Management (2003), points out key functions of PPM:

> One of the key functions of PPM is to organize a series of projects into a single portfolio consisting of reports that capture project objectives, costs, timelines, accomplishments, resources, risks, and other critical factors. Executives can then regularly review entire portfolios, spread resources appropriately, and adjust projects to produce the highest departmental returns. (p. 91)

PPM is not project management, or program management. In his 2004 book, *Agile Project Management: How to Succeed in the Face of Changing Project Requirements*, Gary Chin tells us that; “Portfolio management encompasses those areas that are external to the project but still within the sponsor organization, such as other (related) projects, business strategy, and organizational resources” (Chap. 11).

Nearly ten years ago Art Hutchinson, in a 1998 article in the *InternetWee*k journal, titled Use Portfolio And Project Mgm't To Get Off The Triage Treadmill, informs us that PPM tells us ‘what to work on’ and ‘what to drop’. He goes on to say that; “It also entails mediating between what's possible (capability) with what's needed (a business' wish list). Often this means defining the best that can be achieved with limited resources, rather than attempting the perfect solution (requiring "infinite" resources).” (p. 29)

History

While portfolio management has been around since the 1950’s, the concept of Information Technology (IT) project portfolio management has been around only since the 1980s, but that it did not start making its way into IT departments until the late 1990s. (Solomon, 2002)

Background

For years projects have been created, activated, managed, resourced, and reported on as independent entities:

> Historically, projects were approved and then managed independently. They were evaluated as a whole at the executive level only when it came time to put together annual reports. This annual evaluation is merely a balance sheet examination of projects and does not involve project potential and risks. In markets that move every day, companies need an on-going overall view so they can keep an eye on projects in real time to make sure that all of them are working together to meet core business goals. (Cappels, 2003, p. 92)

Problems

The problems encountered without PPM are not new; "After decades of improvement initiatives, the majority of project managers still fail to meet their goals. Executives are being fired in record numbers". (Kendall, 2003, p. viii)

> In hindsight, the mistakes that organizations and PMOs make seem obvious. Executives can deliver on their promises if, and only if, they can cause their organization to successfully and swiftly execute the right projects. Activate too many projects, and the system fails miserably. Execute some, but not all, of the right projects, and the results are insufficient to meet the goals. Execute projects sanctioned independently by functional executives, and project managers compete with each other over resources, without clear overall priorities. Some of these projects are "pet projects" of functional areas, without a direct link to overall organization goals. (Kendall, 2003, p. viii)

Hot Topic

Debbie Bigelow, in her 2003, *PM Solutions*, white paper, Want to ensure quality? Think portfolio management, points out that PPM is a popular topic at PM and IT conferences, seminars and symposiums:

> Project Portfolio Management has become one of the hottest topics over the past year. At both the recent PMI Seminars & Symposium and PMI Research Conference, there were dozens of papers on the subject. PPM was also one of the most discussed topics at the Gartner IT Expo held in the fall of 2002 in Orlando, Florida. There was also a new conference held in Chicago last November, sponsored by IIR, that was solely dedicated to PPM. IT and business publications now regularly address PPM issues. And Pacific Edge Software has launched a new magazine and website, Portfolio Knowledge (www.portfolioknowledge.com) that highlights the latest information on the subject. (Bigelow, 2003, p. 1)

What is PPM used for?

PPM is used to guide organizations in choosing the right projects at the right time, keeping IT out of trouble, balancing the demand on resources, meeting organizational objectives, and with new product development.

Choose the Right Projects

In the Second Edition of *The AMA Handbook of Project Management,* Paul Dinsmore points out the use of PPM to "Choose those projects that will leverage the organization's precious resources to bring large, measurable value to the stakeholders". (Dinsmore, 2005, p. 290)

In organizations without PPM executives push for their projects irrespective of resource availability. Some feel they have no choice, their project is necessary to their success.

> Resources are multitasked between projects in order to please all functional executives. Resource managers also feel that they have no choice. Who are they to tell someone several levels more senior to them that they simply do not have the resources available? The resource managers feel obligated to show progress to executives and customers on all projects. (Kendall, 2003, p. 6)

> Executives will embrace a PMO that dramatically increases the probability of meeting their goals. Such a PMO will deliver on its promise through four major processes:
> - Choosing the right project mix - a new way of strategic planning
> - Linking the executive team's strategies to current and planned projects
> - Managing the project portfolio correctly
> - Measuring the PMO to tangibly improve project performance relative to the executives' strategic goals
>
> (Kendall, 2003, p. 14-15)

Keeping IT Out of Trouble

PPM provides tools to help IT identify potential problems, so they can work proactively to prevent them. In the November 2003, *Educase Quarterly* article by M. Ayati and Susan Curzon, titled How to spot a CIO in trouble, there are five indicators that help the organization know when IT is in trouble:

- Too Much Firefighting. Resources are depleted when they need to react to problems, rather than proactively working and planning to prevent them.
- Too Many High-Profile Projects. Project get the high-profile label too often, and "too many high-profile projects increase the demand for resources and increase the probability of the projects' failure". (p. 22). Proper prioritization and valuing of projects helps keep them in perspective and aligned with the organizations strategic goals.
- Unmanaged Expectations. The demands on IT are always greater than their capacity. User expectations need to be managed with clear communications about priorities, schedules, and resources. "In particular, the CIO must work with executives to gain their understanding, support, and collaboration in making the hard choices among so many conflicting demands." (p. 22-23)
- Lack of Performance. "The key point here is that the CIO should be among the first, not the last, to know of performance problems. This can only be achieved if the CIO is completely on top of the projects." (p. 23). PPM helps to centralize the needed information from a variety of sources and can provide a real-time view into performance.
- Lack of Current Knowledge. Keeping technology staff abreast of new technology is a continuous process and only happens when this is part of

> resources planning. PPM can provide the information necessary to coordinate all aspects of resource planning, not just allocation to projects.

Balancing Supply and Demand

It is nothing new for IT organizations to be faced with more work than they have resources to complete. Balancing the demands from business units, the availability of resources, and the needs of the organization, is no easy task. In the 2004 book, *New Product Development: A Guide for Your Journey to Best-Practice Processes,* we read that; "If an organization tries to accomplish too much with too few resources, then the resources being used for any one project will be diluted". (Brown, 2004)

Below are some survey results pertaining to resource constraints, and a partial solution:

> In a June 2004 survey, over 90 percent of organizations recognizing a constrained resource cited a technology resource. Since IT resources are often badly multi-tasked, working on far too many projects, the organization can achieve a much higher return on the IT investment by focusing these resources on those few areas that will address the organization's constraint. (Dinsmore, 2005, p. 294)

Overworked IT departments are trying to determine what to work on:

> Between Y2K remediation, Web development, user support and a plethora of other special and urgent projects, the typical IT department in a medium-sized to large company today typically takes on too much and performs acts of daily triage simply to stay afloat. What's the immediate crisis? What can be put off? Who can be pulled from a less important project? Over time, however, the triage approach can lead to a tactical, defensive focus that does little to serve the longer-term strategic interests of the business. It also reinforces the belief that the only way to get results from IT is to be as vocal as possible. (Hutchinson, 1998, p. 29)

Meeting Company Objectives

PPM can help span the gulf between business strategy and execution of individual projects:

> truly agile organizations do not execute projects only one at a time. They execute the right mix of projects to achieve their high-level business objectives. It doesn't help the organization much if you crank through complex projects, only to realize that there are still gaps in the overall business solution. This is the domain of portfolio management—creating, organizing, and prioritizing the portfolio of projects to best meet company objectives. (Chin, 2004, Chap. 11)

New Product Development (NPD)

PPM is not new but it has only been within the last few years that it has seen greater use in the area of NPD:

> For many organizations, portfolio management is an unexplored area for improvement that can clearly accelerate the NPD process. It is also critical in leveraging what are increasingly limited resources for most organizations. They go on to point out that in 2004, “Portfolio management is a relatively new approach for NPD, and many organizations have not yet attempted to install a formal portfolio management process. Portfolio management and the practices associated with selecting the right set of NPD projects have a major impact on NPD performance”. (Brown, 2004)

Who Uses PPM?

PPM is used by many people, organizations, and companies. Among these are IT executives, insurance companies, large organizations, and successful Project Management Offices.

IT Executives

Heather Havenstein, in her 2006 *Computerworld* article – IT Puts Its House In Order, for the Sake of Business, explains that: “As IT executives seek to transform their operations into true corporate assets that can help grow the business at their companies, many are finding that first they must impose much tighter controls over their often vast and unwieldy portfolios of technology projects”. (p. 6)

> Numerous speakers and other attendees at Computer-world’s seventh annual Premier 100 IT Leaders Conference here last week said they are moving quickly to put in place new portfolio management policies and tools. The goal is to ensure that their IT staffs are doing work that meets business priorities and can generate the highest possible return on investment.” (Havenstein, 2006, p. 6))

Executives do not just get information, from PPM, on the project progress they also know what the cost, benefits, and associated risk are so that they can make informed decisions about which projects to continue, defer, or cancel. “What’s most appealing to many CIOs is the focus on projects as a portfolio of investments. . . . This way, entire portfolios can be jiggered to produce the highest returns based on current conditions”. (Solomon, 2002, p. 52)

Insurance Companies

Financial institutions and insurance companies have been among the first to recognize the value of portfolio management and have adapted their knowledge of portfolio management, as it pertains to financial portfolios, to use on IT projects. “Insurance companies across the country are confronting the dual challenges of legacy technology applications and limited IT budgets. Insurance companies are turning to a new method to track the progress of their IT projects, a concept called project portfolio management”. (Siderio, 2003, p. 33)

Large Organizations

As early as the late 1990's larger organizations recognized that they were spending too much time fighting fires and not enough time making progress. Art Hutchinson, in an article in the *InternetWee*k journal (1998), tells us:

> The typical IT department in a medium-sized to large company today often takes on too much and performs acts of daily triage to stay afloat. Over time, the triage approach can lead to a tactical, defensive focus that does little to serve the longer-term strategic interests of the business. While outsourcing does not necessarily provide a quick fix, outsourcing firms have project management expertise and the discipline to put it to use. By mixing the art of portfolio management with the science of project management, IT organizations can help themselves get off the triage treadmill. (p. 29)

Here we have a specific example of an organization turning to PPM:

> In one division of Alcan Aluminum, for example, upon understanding the problems caused by too many active projects, the executive cut the number of active projects in half. By having fewer active projects, they were able to complete more projects per year. This is sometimes counter-intuitive. To complete more projects, you must decrease the amount of active projects. It is like watching logs floating down a stream, coming to a narrow spot. If there are too many logs, they will jam and sit in the same spot all day without assistance. However, if you put the logs through so that they are no wider than the narrowest spot, the flow is much faster. (Kendall, 2003, p. 12)

In the AMA Handbook of Project Management we see several examples of organizations that turned to PPM and improved their project throughput. Here is a partial list:

- Denise Hart, Program Management Officer, Arlington County Government, Virginia
- Vivian Conboy, Project Management Office Director, NYS Department of Taxation and Finance
- Ben Mannahan, Tinker Federal Credit Union, Project Manager

(Dinsmore, 2005, p. 299-300)

Who should use PPM?

IT Executives

Many experts tell us that IT executives that want to be success and keep their jobs can benefit from PPM.

> Executives without effective PPM suffer from cross-functional resource conflicts with continual top management refereeing, poor or anemic organizational

> performance, and projects where the norm is to deliver late, over budget, or not within scope. Most executives are aware of the need for drastic change in multi-project management practices, but many place the emphasis in the wrong place. Unfortunately, a great deal of such investment is misdirected into multi-year efforts to implement software tools and time sheets before dealing with the highest leverage points. (Dinsmore, 2005, p. 292)

Overworked IT Organizations

From reviews, of several companies, we learn some of the problems associated with over-tasked resources. “Most of the organizations that we review have far too many active projects. The number of active projects is completely out of line with the resources available” (Kendall, 2003, p 12):

The four biggest universal problems in project portfolios are:

1. Too many active projects (often double what an organization should have)
2. Wrong projects (projects that will not provide value to the organization)
3. Projects not linked to strategic goals
4. Unbalanced portfolio;
   - Too much on the supply side, not enough on the market side
   - Too much development, not enough research
   - Too much short term, not enough long term
   - Not reflective of the organization’s most important assets
   - Not reflective of the organization’s strategic resource value
   - Not reflective of major product revenue opportunities, risks, etc.

   (Kendall, 2003, p. 207)

Kendall then shows us that:

> time after time overworked IT organizations have successfully turned to PPM to get them back on track to proactively manage the right projects at the right time, accurately predict project success, increase ROI, and keep executives current on active projects. He reminds us that; “Portfolio management is unquestionably at the heart of the PMO success or failure. Everything that a PMO does is somehow linked to driving a better project portfolio through the organization faster and with better results. (Kendall, 2003, p 231)

Project Management Offices (PMOs)

On *developer.com* we learn from Jeannette Cabanis-Brewin, in her 2007 article Project Portfolio Management is Your Friend:

> If a project management office does not own the process of project inventory, prioritization, and selection, it cannot be done well. Research analysts from the META Group recommend this strategy, and those companies that have put enterprise-wide PPM in place, such as Cabelas and Northwestern Mutual Life, have relied on it. (Cabanis-Brewin, 2007)

In his book, *Advanced Project Portfolio Management and the PMO: Multiplying ROI at Warp Speed, Gerald Kendal* (2003) tells us; “Every PMO and every organization without a PMO should have someone designated in the role of project portfolio manager”.

What are the Cost of PPM?

For most organizations the cost of PPM is far less than the cost of not doing PPM. “Most of the cost of PPM is already sunk. The resources, office space, and equipment are already in place. The remaining cost include; mentoring, consulting, training, and maybe tools.” (Cappels, 2003, p. 84)

> The cost of establishing a fully developed PMO can be a major investment if the organization has never consciously paid attention to the needs of projects. On the other hand, organizations that are very sensitive to the success and performance of projects may not have to spend any appreciable additional amount of money in establishing a project office. It is entirely possible that the capabilities . . . currently do exist in the enterprise either separately or in aggregate; they are just not called a PMO. (Cappels, 2003, p. 84)

While there are a variety of PPM tools, to help with reporting and prioritization, the most important thing an organization needs to do is adopt the right processes and procedures for them.

> In industries where agility is truly required, portfolio management inevitably consumes an increasingly significant portion of the senior program manager's time. In slower-moving industries, however, portfolio management will most likely remain within executive management's domain. Program and project managers will provide data on the projects, business/financial analysts will weigh the criteria, executive management will select/prioritize the projects, and then the program/project managers will execute the modified portfolio. (Chin, 2004, Chap. 11)

What are the Benefits of PPM?

IT ROI can improve from the application of PPM methodologies.

> Portfolio management helps with this analysis. Lots of details are taken and organized in an easily digestible form. Executives can see where money is spent, why projects are or are not necessary, and what resources are needed. (Cappels, 2003, p. 91)

The AMA Handbook of Project Management gives us some detailed benefits, that were gathered from studies of companies using PPM:

- When performed successfully, PPM has yielded the following benefits:
- 30 percent improvement in time to market

- 300 percent improvement in number of projects completed with the same resources
- Average project duration cut by 25-50 percent
- Over 90 percent project success rate, with double the profit margin
- 50 percent improvement in R& D productivity.

(Dinsmore, 2005, p. 290)

Realism

Many people in an organization are submitting initiatives for IT to work on that have unrealistic goals and little or no real benefit documented. Compounding this are hasty estimates from IT that lead to unachievable target dates. “PPM brings realism to an organization's planning processes. The Balanced Scorecard Collaborative estimates that upwards of 80% of corporate strategies are never implemented. . . . PPM aligns what an organization wants to do with the resources—the money, hours, people, time, and equipment—required to get it done”. (Cabanis-Brewin, 2007)

Rationality

PPM is not just about project budgets and schedules. It looks at the entire portfolio of projects, resource availability, strategic goals, and time and provides a rational approach for melding these together into a long-term plan.

> PPM brings rationality in the allocation of resources, both human and financial. After project inventory, the next important step in creating and executing a PPM process is to establish budgets (dollars and human resources), and define start and finish dates for these initiatives. Future projects or programs are also forecasted and added to the organization's potential portfolio of work. Also, at this stage, good PPM processes count heads. For some companies, the scarcest resource isn't money but project managers. A critical factor in project selection thus becomes: Do we have a PM who can manage it? (Cabanis-Brewin, 2007)

Visibility

Today’s tools allow information to be easily available to everyone involved in the decision-making and project execution process. Project management tools now integrate with resource planning tools. These together feed into the portfolio management process that encompasses the strategic objectives and expected project benefits. Tie this on to the actual benefit derived from the project and a complete picture begins to evolve. “Without a system for knowing what each person in the pool of potential project personnel is capable of, and when they will be available, you cannot really be said to manage a portfolio”. (Cabanis-Brewin, 2007)

Increased ROI

The greatest benefit of PPM is the increased ROI. This comes from the improved efficiency gained by working on only the right projects at the right time, understanding the risk, and balancing resources against demand. "Bottom line is PPM can improve a company's ROI and time-to-market delivery – and what company doesn't want that?" (Bigelow, 2003, p. 1)

> The discipline of portfolio management helps a company select and prioritize projects with the greatest potential ROI – before the projects are executed! Effective PPM provides a consistent way to evaluate, select, prioritize, budget, and plan for the right projects – those that offer the greatest value to the company's strategic interests. PPM starts with developing a strategic focus and ends with selecting the right projects. (Bigelow, 2003, p. 2)

Conclusion

Organizations with many more projects than they have resources to complete need to be able to ensure that the right projects are worked at the right time. Risks and cost need to be balanced against projected benefits. Executives need visibility into cost, schedule, and actual benefits to provide them the information they need to set the strategic goals that will focus the company in the right direction. PPM brings all this information together and provides methods for evaluating this information to increase the organizations ROI.

"Every CIO should pay close attention to executive support, strategic directions, and project portfolio management in order to stay on track." (Ayati, 2003, p. 23)

Bruce Miller, of *PM Solutions*, in his 1997 white paper, Portfolio Management - Linking corporate strategy to project priority and selection, looks into a future that for us is already here:

> As organizations prepare for the 21st century, being able to identify, justify, and prioritize your selection of Information Technology (IT) Projects will become more critical. By clearly understanding your organization's strategic direction and corporate bottom-line, you can begin to formulate a direct relationship between the IT Projects you choose and these objectives. (p. 1)

Now that we know we need PPM, the next step is to learn more about PPM, determine how it fits into our organization, and begin defining the processes that we will use with PPM. Once we understand how we will use PPM then we can begin evaluating tools to help bring it all together.

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Appendix A: Proposal

Date: 12 November 2007
To: CIO, Dr. Anthony, TS5004 Classmates
From: Mike Woodard
Subject: Proposal for a research paper about why project portfolio management should be used in our organization.

Introduction

I propose conducting research and preparing a paper that explains why we should be using Project Portfolio Management (PPM) in our organization. Selecting the right projects at the right time is important to efficient use of limited resources to achieve strategic goals. PPM is a proven process that provides a structured approach to efficiently select the projects that best match the organization's needs.
Efficiently identifying the right projects to meet strategic goals, that fit the available resources, and help organizations make more effective use of their resources are just some of the benefits of PPM.

Proposal

Prepare a research paper that explains why our organization should use PPM.

Problem

Working on many simultaneous projects is not an efficient use of Information Technology (IT) resources. Some of the resources' time is lost transitioning back and forth between projects. By focusing these resources on just the right two or three projects more of the important work will get done.

Solution

Implementing PPM will provide executives, management, and the business with the information needed to select the right projects to work, will make more efficient use of limited IT resources, and will help to increase the Return on Investment (ROI) of the IT department.

Resources

Mike Woodard will conduct the research and prepare the final paper using references, primarily, from online sources;
university libraries,
the Project Management Institute (PMI),
and commercial sites with reliable information.

Timeline

All research will be conducted outside of business hours. The research paper outline has been prepared, and the initial research to identify credible resources is complete. The remainder of the effort is planned to be completed before the end of 2007, along the following timeline:
Proposal Complete – 18 November 2007
Research Completed – 25 November 2007
Progress Report Submitted – 2 December 2007
Final Draft Research Paper Completed – 9 December 2007
Research Paper Submitted – 16 December 2007

Cost & Next Step

There is no cost to decide that this organization needs to implement PPM. Once the decision is made to implement PPM then additional research will be conducted to determine:
What we want PPM to do for us?
How PPM will best fit within our organization?
What tools and resources will be needed to support PPM?

Conclusion

IT resources are limited but the demand on their talents is not. Treating IT projects like assets within a financial-portfolio reduces risks, more efficiently uses resources, and increases ROI. As a project manager, and IT resource, I know my time is not efficiently distributed across the many projects I attempt to manage. PPM can help us focus our limited resources on the right projects at the right time so that we can deliver better value to our customers.

Appendix B: Progress Report

Date: 1 December 2007
To: CIO, Dr. Anthony, TS5004 Classmates
From: Mike Woodard
Subject: Progress report on the research paper about why project portfolio management should be used in our organization.

Introduction

This report provides status on the progress of the research paper about why project portfolio management should be used in our organization. The final research paper will explain why we should be using Project Portfolio Management (PPM) in our organization.
This project is on track – research is complete and the final DRAFT will be available within two weeks.

Progress

Challenges

There is a large amount of information available about project portfolio management but only a small portion of it addresses why project portfolio management is needed and what benefits it provides. I have reviewed more than 50 sources and narrowed the list down to about 14 that will be used to support the final report. This should be more than adequate.

Schedule

The remaining work is on schedule.
Proposal Complete – 18 November 2007 - COMPLETE
Research Completed – 25 November 2007 - COMPLETE
Progress Report Submitted – 2 December 2007
Final Draft Research Paper Completed – 9 December 2007
Research Paper Submitted – 16 December 2007

Conclusion

This project has completed the initial proposal, the outline for the paper and the research to select suitable sources. The final DRAFT will be submitted for peer review in about a week and I look forward to input from my peers to improve the final product. I am on track for the final submission.