Management of Portfolios

Purpose & Scope

- **Purpose:** Provide practitioners with universally applicable principles and practices that will enable individuals and organizations (large or small) to successfully introduce or re-energize portfolio management approaches.

- **Scope:** Portfolio management can be applied in a wide variety of situations: at an enterprise, departmental or functional level.

- The focus in MoP® is on the organization’s collective investment in programmes and projects (or change initiatives) that are focused on contributing to the achievement of strategic objectives and business priorities.

“There is nothing quite so useless, as doing with great efficiency, something that should not be done at all.” - Peter Drucker

Definitions:

Portfolio: An organizations portfolio is the totality of its investment (or segment thereof) in the changes required to achieve its strategic objectives.

Portfolio Management: A coordinated collection of strategic processes and decisions that together enable the most effective balance of organizational change and BAU.

Programme: A temporary flexible organization structure created to coordinate, direct and oversee the implementation of a set of related projects and activities in order to deliver outcomes and benefits related to an organization's strategic objectives..

Project: A project is a temporary organization that is created for the purpose of delivering one or more business products according to an agreed Business Case.

Definisjoner:

Portefølje: En portefølje representerer en virksomhets totale investering (eller del av den) i de endringene som er påkrevet for å møte dens strategiske mål.

Portteføljestyring: Porteføljestyring er den koordinerte samling av strategiske prosesser og beslutninger som til sammen muliggjør den mest effektive balanse mellom endringer og drift.

Program: Et program er en midlertidig, fleksibel organisasjon etablert for å koordinere, lede og følge opp implementeringen av ett sett tilknyttede prosjekter og aktiviteter for å levere effekter og gevinster knyttet til virksomhetens strategiske mål.

Prosjekt: Et prosjekt er en midlertidig organisasjon etablert med den hensikt å levere ett eller flere produkter som bidrar til å realisere avtalt Business Case.

Programmes and projects specifically focus on 'doing things right', whereas portfolio management is about a combination of 'doing the right things' and 'doing things right' at a collective level.

"The #1 challenge of most organizations is lack of process to rank candidate projects and then allocate resources to this prioritized list until resources are at capacity - which is NOT 100%. Most leadership teams have no idea as to when they must say NO to a new opportunity." Joy Gumz

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5 Principles ...and keys to success

The principles are the foundation for effective portfolio management

- **Senior management commitment**: A senior management champion, Defined roles and responsibilities, Active engagement, A compelling vision, Aligned to reward and recognition strategies including senior manager's personal objectives.

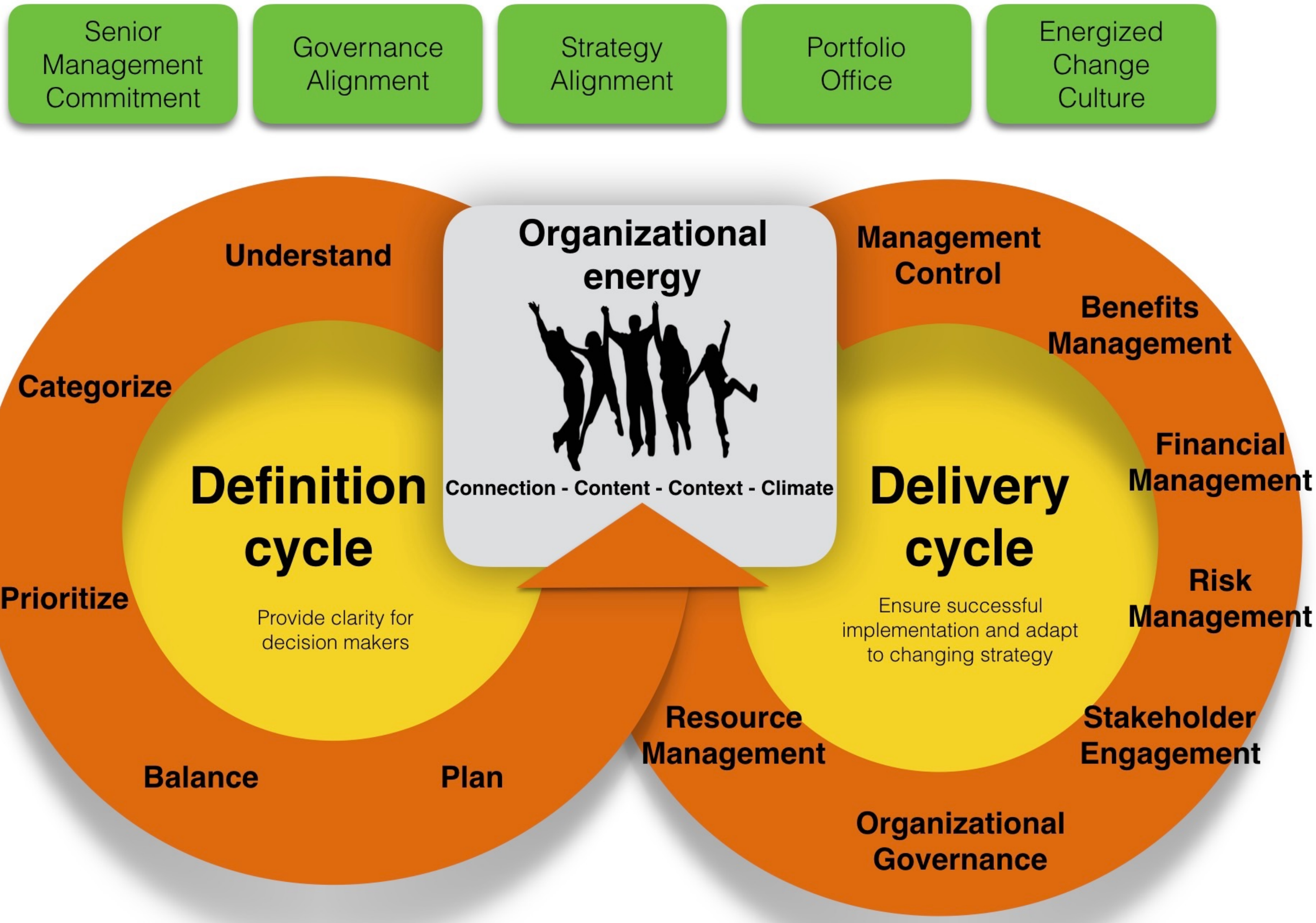
- **Governance alignment**: Defined roles and responsibilities, Consistent with organizational governance, Shared understanding, Agreed escalation process, Aligned meeting schedules, Sub-portfolios periodically reviewed.

- **Strategy alignment**: Strategic objectives supported by driver-based analysis, Benefits clearly identified, Collaborative working, Regular review at portfolio level, Regular view at initiative level, Early involvement improves quality.

- **Portfolio office**: Organizational status, Agreed mandate, Collaborative working, Appropriate skills, Regular measurement of progress.

- **Energized change culture**: Collaborative working, Proactive communications, Learning organization, Clarity about expectations, Effective processes, Roles and relationships with a clear line of sight from strategic to personal objectives, Monitoring of organizational energy, Demonstrable senior management commitment, Listening and engagement.

MoP - The big picture:

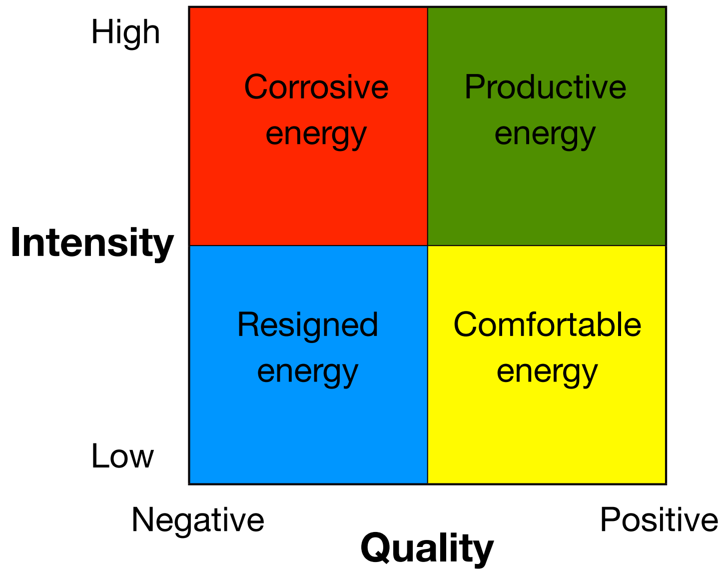


MoP - Organizational energy:

Organizational energy

Sources:

- **Connection:** How people link themselves, their values and their work to the purpose of the organization.
- **Content:** Work stimulates and provides a sense of achievement.
- **Context:** Working practices support and enable people to do a good job.
- **Climate:** How the organization helps people to grow, achieve their potential and do their best.



Definition cycle: Sequential practices

- The Purpose of the definition cycle is to collate key information on providing clarity to decision takers on the collection of change initiatives which will deliver the greatest contribution to the strategic objectives.
- **Understand**: To obtain a clear and transparent view of what is in the current portfolio and the project development pipeline, performance to date, and the forecast costs, benefits, and risks to delivery and benefits realization.
- **Categorize**: To organize the portfolio into groups or segments to make it easier for decision makers to understand the makeup of the portfolio and to make decisions on balance and on the optimum use of available funding and other resources.
- **Prioritize**: To help senior management answering which initiatives the organization should invest in, what the most important initiatives are, and what initiatives must be resourced above all others.
- **Balance**: To ensure the portfolio is balanced in terms of factors such as timing, coverage of strategic objectives, impact across the business, stage of initiative development, overall risk return profile, and available resources.
- **Plan**: To collate information from the definition cycle and create a portfolio strategy and portfolio delivery plan which will be approved by the Portfolio Direction Group.

Delivery cycle: Simultaneous practices

- The Purpose is to ensure the successful implementation of the planned change initiatives as agreed, and ensuring the portfolio adapts to changes in the strategic objectives, project and programme delivery and lessons learned.

- **Management Control:** To ensure that progress, at an individual and portfolio level, is regularly monitored against its baseline. This helps ensure delivery stays on track and that the portfolio remains aligned with the strategy.

- **Benefits Management**: To clearly identify and manage the benefits being realized from the portfolio, so to ensure the best use of available resources and that the contribution to operational performance and strategic objectives is maximized.

- **Financial Management:** To ensure that portfolio management processes and decisions are aligned to the financial management cycle and that financial considerations form a key element in all decisions regarding the commencement and ongoing viability of change initiatives, both at individual and collective level.

- **Risk Management**: To ensure a consistent and effective management of risks at both individual and collective level

- **Stakeholder Engagement**: To provide a coordinated approach to stakeholder engagement and communication, so that the needs of the portfolio customers are identified and managed, and that stakeholder support is gained by effective consultation and involvement in both portfolio cycles.

- **Organizational Governance:** To ensure clarity about what decisions are made by whom, where and when, and what criteria are used.

- **Resource Management:** To put in place mechanisms to understand and manage the amount of resources available and required.

9 Techniques for Portfolio Management

- **Driver-based strategic contribution assessment:** The goal of driver-based planning is to focus business plans upon the criteria that are most capable of driving success.
- **Three-point estimating and reference class forecasting:** Three-point estimating is a technique whereby project estimates are prepared on 3 bases: Best case, Worst case and most likely case. Estimates can then be calculated by multiplying the most likely estimate by 4, adding the best and worst case estimates, and dividing the total by 6. Reference class forecasting is where a forecast of an initiative's duration, costs and benefits are derived from what actually occurred in a reference class of similar projects.
- **Multi-criteria analysis:** Technique combining financial metrics with some form of multi-criteria analysis considering factors (may be weighted) under two main headings: 'Return or Attractiveness' and 'Risk and Achievability'
- **Decision-conferencing:** Collective decision-making on the composition of the portfolio. Debates are usually in facilitated workshops.
- **Staged release of funding:** Implementing continued funding for initiatives to assessment of performance and continued strategic alignment.
- **'One version of the truth' reporting:** Technique ending with an authoritative source of information based on derivation of information from an agreed source managed by the portfolio office.
- **Champion-challenger model:** Comply with the portfolio processes (the current champion) but anyone can recommend a challenger . If a challenger wins, it then becomes the champion.
- **'Clear line of sight' planning and reporting:** Technique that seeks to ensure a transparent chain from strategic intent through to benefits realization.
- **Management by exception:** Technique to escalate when a budget/scope threatens to exceed a

6 Functions to work with:

- **Business as Usual (BAU)**: Portfolio management and BAU combine to realize strategic objectives. Portfolio management controls the major changes to BAU. Successfully implemented changes allow benefits to be realized and operational performance improves.

- **Strategic/Business Planning:** Strategic planning sets the context within which portfolio management operates while portfolio management provides crucial information for strategic decision making.

- **Budgeting and Resource Allocation:** Portfolio management provides the means by which the link between strategy and (financial) resource allocation can be maintained.

- **Programme and Project Management:** Portfolio management delivery capability organization-wide (standards, processes, staff development), and manages the change initiatives at a collective level (limited resources, overall risk management, dependency management, ...).

- **Performance Management:** Portfolio management should align with the organization's performance management system (e.g. Align reporting, engaging performance management early on in the development of business cases, etc.). And portfolio management can imply changes to the performance management system (e.g.the way individual performance targets are framed on organizational objectives).

- **Corporate Governance:** Portfolio management supports effective governance by— amongst others—linking delivery of the organization's strategic objectives with investment in change, by providing a framework of rules and practices for managing the delivery of the portfolio, and by clarifying responsibility and accountability for decision making on which projects will be funded and on what basis.

Implement, Sustain and Measure

- **Big bang -** Implementing portfolio management is viewed as a business change programme in its own right and is planned with: a business case; a compelling vision for the future state; a blueprint or target operating model; and an implementation plan agreed by the management board. A time bound implementation phase is followed by live running encompassing all portfolio de nition and delivery practices.

- **Evolution -** Here a more evolutionary or incremental approach is taken starting with areas of greatest need or those where rapid progress can be made, and the organization's approach to portfolio management then evolves to re ect its needs, opportunities and lessons learned.

- **Ad hoc -** As with the evolutionary approach, there is no detailed master plan, but there is no expectation that the approach will develop and no commitment to capturing lessons learned to inform development. Instead implementation is more opportunistic.

Relevance of approaches

- ***There is no one right way to implement portfolio management – it all depends on the circumstances.***

- **'Big bang' approach:** most appropriate where top-down approaches to strategy formulation are applied, where the environment is relatively stable, and where PPM is already relatively mature.

- **Staged, incremental or evolutionary approach:** more appropriate in less stable environments and where strategy is itself emergent.

- **Ad hoc approach:** applicable where existing practices are less mature and where senior commitment to organization-wide, end-to-end portfolio management is less well embedded.

First 7 steps in an evolutionary implementation:

- Obtain an outline of the current portfolio in a single place:
- Complete a portfolio delivery plan and monitor progress against it on a regular basis:
- Start tracking completed project performance compared to forecast:
- Review the current portfolio and identify dependencies:
- Establish clear governance structures:
- Define a standard set of investment criteria to be used to appraise and prioritize initiatives:
- Apply staged release of funding:

The MoP® Roles

- **Portfolio Direction Group / Investment Committee:** Makes decisions about inclusion of initiatives in the portfolio and as such approves the portfolio strategy and delivery plan
- **Portfolio Progress Group / Change Delivery Committee:** Is responsible for monitoring portfolio progress and resolving issues that may compromise delivery and benefits realization
- **Portfolio Director / Business Change Director:** A board member responsible for the portfolio strategy and providing clear leadership and direction through its life
- **Portfolio Manager:** Coordinates the effective and efficient operation of the portfolio management practices and provides support to the above mentioned roles
- **Portfolio Benefits Manager:** Ensures a consistent fit for purpose approach to benefits management is applied across the portfolio and that benefits realization is optimized from the investment in change

Portfolio-level Documentation

- **Portfolio Management Framework:** A single source of info on the portfolio management practices adopted by the organization and its governance arrangements
- **Portfolio Strategy:** A brief description of the vision and objectives for the portfolio
- **Portfolio Delivery Plan:** A baseline to monitor progress against of the planned initiatives and associated resource requirements
- **Portfolio Benefits Management Framework:** A framework to ensure a consistent approach to bene ts management across the portfolio
- **Portfolio Benefits Realization Plan:** To summarize benefits forecasts, and a baseline to assess benefits actually realized
- **Portfolio Financial Plan:** To summarize financial commitments, and a baseline to track and compare actual spend
- **Portfolio Resource Plan:** A baseline to manage demand/supply for constrained resources
- **Portfolio Stakeholder Engagement and Communication Plan:** A framework to ensure consistent communications across the portfolio
- **Portfolio Dashboard:** To provide an overview of progress against plan

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Assessing portfolio management – example metrics

- Trend in balance of spend by portfolio category/segment.
- Savings in business case production – cost and time.
- Stage/phase gate ratings.
- Post-implementation review ratings for bene ts realization against forecast and achievement of value for money (actual benefits compared to actual cost).
- Proportion of initiatives rejected/stopped at each stage/phase gate and portfolio-level review.
- Speed with which initiatives progress through the development pipeline and the shape of this pipeline.
- Proportion of portfolio in value terms (and by cost) invested in modular programmes and projects.
- Length of projects from inception to closure, e.g. % less than 6 months, 6 months–1 year, 1 year–18 months, >18 months.
- Scale (and trend) of reliance on external resources (contractors and consultants).
- Scale of unplanned delays due to resource constraints.
- Scale of unplanned delays due to ineffective dependency management.
- Key resource utilization rates.
- Amount of investment written off.

Assessing portfolio management – example metrics

- Improved reputation for effective change management.
- Quantitative data on:
  - Percentage of initiatives delivered on time compared with initial forecast.
  - Percentage of initiatives delivered on budget compared with initial forecast.
  - Percentage of benefits realized compared with initial forecast.
- Process maturity assessment.
- Number of portfolio process improvements recommended under the champion–challenger model and from post-implementation reviews.
- Stakeholder survey of views on the efficiency and effectiveness of the portfolio definition practices.
- Stakeholder survey of views on the efficiency and effectiveness of the portfolio delivery practices.

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