

# Portfolio Management – Proving Corporate Accountability

(The Business Report Card)

## How Does your Organization Take Care of Strategic Assets?

### Portfolio Management - What is it?

Portfolio management is a term that has been used in the financial investment community for many years. It has recently come into vogue within the project management community and for one very good reason: Organizations commit huge amounts of resources to new projects and they need to know if their investments are paying off.

To continue the financial analogy, individuals create financial portfolios to direct and control their finances for a secure future. The process that many financial advisors use includes the following items: establishing the investor's goals, understanding the risk profile of the investor, and then creating a portfolio mixture of investments to create a proper balance of risk/secure investments. Once created, the investor must monitor/manage the portfolio so that the projected goals are achieved.

Portfolio management in a project context is intended to do something very similar. Let's start with a few definitions:

**Project** – According to Harold Kerzner, in Project Management: A Systems Approach to Planning, Scheduling, and Controlling, a project is a series of activities that have a specific objective, defined start/end dates, funding limits, and consume resources. Using this definition, it is easy to see how most of an organization's resources (outside of a regular operational context) are focused toward project work.

**Program** – There are many definitions and uses of this term in the project management context. The differences vary by organization and individual. There are so many definitions that I hesitate to open the topic at all. For purposes of this document, however, we can say that program management is oversight for a collection of projects. The projects may be related to each other (as in a program that is focused on the development of particular product) or organizationally (as in all projects that report into the billing services department). There are also varying levels of program control from a simple reporting accountability to complete authority over the projects within the program.

**Portfolio** – Portfolio management moves project and program management to the enterprise level. The concept has received a great deal of attention in recent years from many organizations including software developers and standards bodies. For example, the Project Management Institute is currently working on a project called the Organizational Project Management Maturity Model (OPM3). You can read about their work in portfolio management by visiting the PMI website: <http://www.pmi.org/>

We also believe that success in portfolio management requires an evolutionary approach to project management maturity. It is not realistic to expect that organizations can become proficient in portfolio management all at once. They must determine where their most critical problems exist and then work towards maturity within a process improvement framework.

Portfolio management, therefore, is the ongoing and proactive planning, execution, and control of the future of an enterprise. It is evolutionary and is based on a continuous improvement model. This definition requires an organization to clearly understand its strategic goals, understand the risk profile they wish to use, and then implement strategies to reach those goals via active management of their projects. Portfolio management should be a major component of a Balanced Scorecard. In our definition, portfolio management has three components: leadership accountability, project accountability, and the infrastructure required to support the portfolio. The components work together to create a successful portfolio.

Portfolio management is primarily the responsibility of an organization's leadership. Leadership must provide strategic direction for the employees, stakeholders, and the board of directors. They must understand how well the projects within the organization are tracking against its stated goals. Responsibilities include project initiation, portfolio analysis, portfolio risk management, forecasting, and much more.

Projects need to be chartered by leadership with an adequate budget and the resources required for success. The project leader is accountable to lead the team and work with leadership to ensure project success.

The leadership of the organization and the project teams need to have an infrastructure in place that provides the framework for success. The tools, training, knowledge base, and project data must be readily available for their use.

### **Why do it? What is the cost of failure and what is the value of success?**

Several years ago, I was hired by a large telecommunications company to set up a PMO. The CIO of that company wanted to establish a PMO with the hope that it would help answer some basic questions: How many projects do we have? How are they doing? Do they match the corporate strategic direction? Do we have the resources we need to fulfill on our commitments? There were several other questions but these should give you an idea of this CIO's frustration with the lack of access to critical information that was absolutely necessary to perform the job. The process of obtaining this information was convoluted, slow, and inaccurate. Unfortunately, many organizations have these problems because of the fast pace and continuously changing environment in which they operate.

We have all seen numerous reports from various research groups that chronicle the impacts of poor project management. We can talk about cancelled projects, projects that run over budget and schedule, and projects that compete with others in the same organization for resources and attention. These projects are also often either redundant in scope or at cross-purposes to each other.

The damage done by this style of management is often disastrous. If a key strategic project is over budget and behind schedule, when did the leadership of the organization find out about it? Do they know why it is not tracking to plan? Do they have the right resources? Do they have adequate resources? How confident are they that the new schedule is accurate? Upon what do they base their judgment? What impact will this project delay have on the rest of the portfolio?

Fortunately, effective portfolio management can address all of the questions above and more. Portfolio management has been proven to have a significant, positive impact on the corporate bottom line. During the late 1990's, Dr. William Ibbs and associates of the University of California at Berkeley developed a Project Management Capability Maturity Model and

performed a study to measure the impact of movement toward a more mature project management organization. The model is similar in format to the well-known Capability Maturity Model of Carnegie Mellon's Software Engineering Institute. Fifty-four companies across 5 industry sectors participated in the initial study and the results showed that improvement in an organization's maturity level directly correlated with improvement in schedule and cost performance indices. The actual dollar savings varied widely and depended on multiple factors such as investment amount, maturity levels, and types of projects.

In the current corporate environment, where formerly respected business leaders are now being indicted for fraud, corporate books are being scrutinized, and earnings reports are being "restated," Portfolio Management is a tool that should be added to every organization's management directive.

For the Board of Directors – The Board of Directors needs access to information so that it can make informed decisions in managing the business direction and serving the investors. Portfolio Management will help them measure the effectiveness of investments.

For the Executive Team – Executives have the right to accurate and timely information so that they can make sound business decisions. They should be judged on how well they manage the strategic assets of their organization and lead the organization into the future. Portfolio management allows leaders to keep a finger on the pulse of their business and to make course corrections quickly so they can maintain a competitive edge.

For the Organization – The people who perform the work should know how their work impacts the organization. They should have clear direction and they should have the ability to manage their work, no matter how large or small its impact on the organization. The vast majority of employees want to make a difference. Conflicts and confusion regarding priorities and direction result in inefficiency and frustration. The portfolio sets context for the organization so all can understand the importance of their work within the context of the overall objectives of the company.

The future of the enterprise may very well depend on successful portfolio management. It is a communication vehicle that results in the effective use of stakeholder resources, employee resources, and business processes that are truly "best practices."



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