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Why Do We Need Project Portfolio Management?

Do traditional measures of project success miss the true business objectives? Scope, Time, Cost and Quality are only components of the objective, rather than independent measures of success.

Harvey Levine, June 2000

Could what I said five years ago be considered blasphemous? Imagine going against conventional wisdom at a time when project portfolio management (PPM) was just emerging as a body of thought. Project management was finally getting its well-deserved recognition, and everyone was focusing on spreading the gospel of bringing projects in on time, within budget, and meeting scope and quality objectives. Well, almost everyone.

Why would anyone want to shoot holes in the acceptance of project management? No one is suggesting that project management is wrong. However, limiting our focus to the critical measures of project success confuses the means to an end with the end itself.

Almost everything written about measurements of project success dwells on the four pillars of success: scope, time, cost, and quality. We have been taught to identify the goals for success in each of these areas and then to create plans that balance these objectives.

Then we implement practices and use computer-based tools to measure how well we are accomplishing these objectives. When we meet these objectives and satisfy the project stakeholders, we consider the project to have been successful.

However, most executives are not interested in these areas of measurement. Instead, they talk about profitability, return on investment, delivery of benefits, and taking advantage of windows of opportunity. We used to say that executives are interested in just two things about projects: when they will be finished and what they will cost. Not anymore. Now (in the for-profit arena) they ask:

- What mix of potential projects will provide the best utilization of human and cash resources to maximize long-range growth and return on investment for the firm?
- How do the projects support strategic initiatives?
- How will the projects affect the value of corporate shares (stock)?

Similar issues apply to the nonprofit and government operations where optimizing the use of limited funds and resources and support of missions and strategies is vital. While PPM can be effectively applied to both the public and private sectors, most of the examples in this book use a for-profit enterprise as the model. With minor adjustments, PPM can be adapted to nonprofit and government operations.

Perhaps this is an oversimplification. However, if we start with this premise and examine its meaning, we can begin to realize the tremendous impact of this observation on the way that we conduct project management and even in the way that we select and implement project management tools.

The Emergence of Project Portfolio Management

Certainly it is not news to anyone that the basic concept of project management has evolved to what we call *enterprise project management*. At first, many people in the PM community thought that this shift was more of a way of aggrandizing project management—sort

of a pompous elevating of project management to a higher level of importance. Later we came to realize that enterprise project management was a reflection of the importance of consolidating and integrating all of the organization's projects—for universal access and evaluation. Now we come to find that enterprise project management entails consideration of potential projects as well as approved projects. We also find that the emphasis has shifted from traditional project-centric objectives to higher-level operational objectives.

Projects, executives have come to realize, are the basis for the future profitability of the firm. Hence, they have a growing interest in how projects are selected and managed. They are precipitating an increased demand for more standardization and automation of project management. But what they are asking for is different from the requests from traditional project management sources. And what they are calling this emerging project management protocol has also changed. It is no longer just *project management* or even *enterprise project management*. It is now called *project portfolio management*.

Bridging the Gap Between Operations Management and Projects Management

Project portfolio management is the bridge between traditional operations management and project management (see Chapter 3.1). For organizations that will be depending on project success for the success of the overall enterprise, a well-structured bridge, built on a good foundation, is the preferred way to overcome the traditional gap between operations and projects management.

In PPM, it is assumed that the enterprise positions itself for increased strength and profitability through its selection and execution of projects and ensures that it continues to thrive in a world of constant change and the threat of competition.

The basic elements of PPM are not new, nor is the environment in which it is applied. However, before the emergence of PPM as a defined discipline, these elements were the responsibility of two distinct groups: operations management and projects management, each with its specific role:

<i>Operations Management</i>	<i>Projects Management</i>
Strategies	Schedule/time
Objectives, goals	Project cost
Business performance	Project performance
Stockholder satisfaction	Stakeholder satisfaction
Project selection and mix	Scope/change control
Resource availability	Resource utilization
Cash flow, income	Cash usage

The Traditional Organization

When the execution of projects is a normal part of the organization's business, typically the organization establishes, in parallel with the operations function, a function to manage the projects. This normally includes a central project office or project management office (PMO) and specialized personnel to manage projects. The PMO, under a chief project officer (or similar title), develops standards and practices directed at the effective execution of projects and the attainment of schedule, cost, scope, and quality objectives. In doing so, a project management planning and information system is put in place, and periodic measurements of project progress and performance are conducted.

In traditional organizations, responsibility for determining and achieving the organization's goals is assigned to the operations function. Senior managers with titles such as chief operating officer, chief technology officer, chief information officer, chief financial officer, and strategic planner establish objectives and goals and develop strategies to achieve these. When there are projects associated with these goals, these senior managers are expected to select from a menu of proposed and pending projects. The objective is to create the mix of projects most likely to support the achievement of the organization's goals within the preferred strategies and within the organization's resource (people and funding) constraints.

A problem common to many organizations is that there is no connection between the operations and projects functions and no

structured, consistent, and meaningful flow of information between these two groups. The organization's objectives (enterprise-level goals) are hardly ever communicated to the project office, and the periodic measurements made by the projects group cannot be related to these objectives.

What a waste! Both groups are off in their own world, working to do the best that they can but not knowing if their efforts are effective or efficient. Are the projects that are being worked on (assuming that they were properly selected in the first place) still the best ones to support the objectives? How well are they supporting the objectives? Are there performance issues associated with meeting the objectives? How would the operations people know?

And over in the project office, when the project performance data is evaluated, what knowledge is available to influence the corrective action decisions? If the individual project objectives are in danger, what should the project manager know to work on balancing schedule, cost, scope, and quality parameters? Can this be effectively done in the absence of operations inputs?

Bridging the Gap Between Portfolio Planning and Portfolio Management

There is a second gap with which to contend. Our traditional approach is to separate the function of project selection from that of managing the project pipeline. The traditional assumption is that once a project is approved, it is separated from the parental umbilical cord. The criteria on which the selection was based are lost. The only criteria remaining for monitoring project performance are specific to the individual project goals rather than the portfolio as a whole.

And how shall we deal with project and portfolio assessment? Is a project a static item or a dynamic system? If a project is dynamic in nature (its scope, timing, and cost are subject to change), then what effect does this have on the project portfolio? The typical project has a range of possible outcomes and costs. There is the base case and potential upside and downside. If the project was selected

on the basis of a set of assumptions (stated in the base case), does that project still belong in the portfolio when its attributes change? Periodically we need to review the project to test assumptions, update givens, and monitor progress; examine alternatives; and consider remodeling the portfolio.

Thus, we can see that there are potential weaknesses in the typical project management implementation:

- The organization's objectives and goals, as supported by the project portfolio, are not communicated to the people responsible for project performance.
- The project performance, as monitored by the project managers, is not communicated to the portfolio managers, strategic planners, and senior managers.
- The gap that exists between these two groups, in both communication and available information, prevents active management of the portfolio based on the current, changing status of the component projects.

What is needed is a basis for addressing project selection issues, deciding on project termination, facilitating reallocation of resources, changing of priorities, and evaluating alternatives. Without this capability, there is no project portfolio management.

The Project Portfolio Life Span

Perhaps the strongest way to delineate the differences between project management and PPM is to look at the true life span of projects within the PPM environment. We usually consider the life span of a project to be from authorization to delivery. In some models, we start earlier, with a proposal.

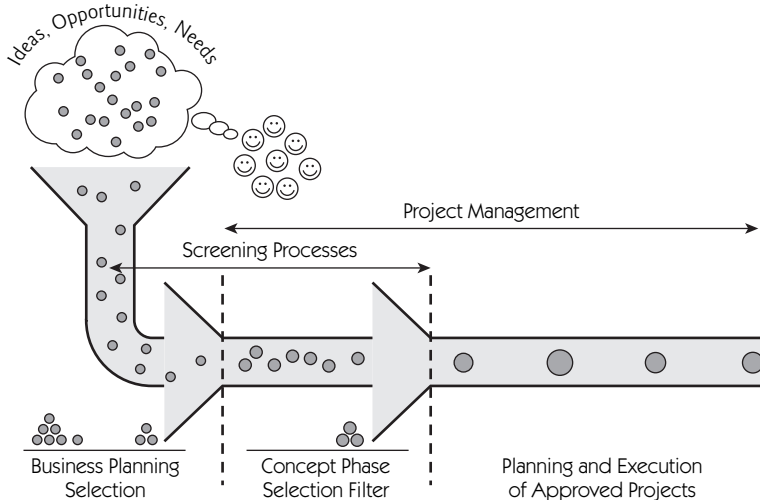
With PPM, this life span is expanded, on both ends. According to Max Wideman, the project portfolio life span (PPLS) consists of the following phased components (see Figure 1.1-1):¹

1. Identification of needs and opportunities
2. Selection of best combinations of projects (the portfolios)
3. Planning and execution of the projects (project management)
4. Product launch (acceptance and use of deliverables)
5. Realization of benefits

Looking at this model, you can see that the purview of the project office is concentrated on item 3. The expansion of the life span and scope to include all five items requires the involvement and leadership of the executive side of the organization and the development of a portfolio governance culture, processes and tools.

Furthermore, the measurement of success does not stop with project delivery. The project was designed to deliver certain defined benefits. The true measure of success must extend to the evaluation of whether these benefits were in fact obtained.

FIGURE 1.1-1 First Three Steps of the Project Portfolio Life Span



Source: R. M. Wideman, *A Management Framework for Project, Program and Portfolio Integration* (New Bern, N.C.: Trafford Publishing, 2004), p. 169.