Getting started with portfolio management

Level: Introductory

Michael F. Hanford, Chief Methodologist, SUMMIT Ascendant Methodologies

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from The Rational Edge: This article provides some insights and ideas around the commonly asked question of how to start the introduction and implementation of portfolio management practices in an organization.

I'd like to take up a question that is frequently asked by clients and potential clients regarding project portfolio management techniques: How do you begin introducing this discipline into an organization? This question most frequently occurs during, or immediately after, an overview briefing which describes the contents, context, and basic ideas and concepts of portfolio management as a discipline. It's a fair question, and there's a lot more to the answer than I can usually provide in a short briefing session.

However, there are a few key points I would like to make.

As in the adoption of any new capability that addresses organizational structures, policies, and processes, the climate and culture of the organization is a major factor in determining how difficult or easy the change will be. The introduction of portfolio management practices must not only take into consideration process at the practitioner and project manager levels of the organization; it must be driven by the strategic direction which is set by the senior management.

If they're committed to the use of portfolio management, senior management will see the initiatives undertaken by the organization as investments with various rates of return, benefits and needed outcomes, and associated risks. And, this is why the whole concept of the "portfolio"(as in "investment portfolio") is applied to this area of business and IT governance.

As I noted in my October 2005 article in *The Rational Edge*, Morgan Stanley's Dictionary of Financial Terms offers the following explanation of the term "portfolio":

> If you own more than one security, you have an investment portfolio. You build the portfolio by buying additional stocks, bonds, mutual funds, or other investments. Your goal is to increase the portfolio's value by selecting investments that you believe will go up in price.
>
> According to modern portfolio theory, you can reduce your investment risk by creating a diversified portfolio that includes enough different types, or classes, of securities so that at least some of them may produce strong returns in any economic climate.[1]

In a non-financial business context, projects and initiatives are the instruments of investment. An Initiative, in the simplest sense, is a body of work with:

- A specific (and limited) collection of needed results or work products.
- A group of people who are responsible for executing the initiative and use resources, such as funding.
- A defined beginning and end.

Managers can group together a number of initiatives into a portfolio that supports a business segment, product, or product line (or some other segmentation scheme).

These efforts are goal-driven; that is, they support major goals and/or components of the enterprise's business strategy.

Managers must continually choose among competing initiatives (i.e., manage the organization's investments), selecting those that best support and enable diverse business goals (i.e., they diversify investment risk). They must also manage their investments by providing continuing oversight and decision-making about which initiatives to undertake, which to continue, and which to reject or discontinue.

Understanding the type of effort involved

So, here is my first key point: You must understand what type of work effort the introduction and implementation of portfolio management practices represents in order to identify an effective approach to its execution. You must also identify which capabilities and experience within your organization (or outside it) you will require to enable that execution.

The type and context of the effort must be understood in order to approach, plan, and execute the implementation of portfolio management practices. For example, we would approach a piece of work identified as "research and development" differently from a piece of work identified as "building construction." Even better, if we understand the type of work, and its context; we may be able to identify organizational and individual capabilities and experience, and we may identify which existing methods, practices, and approaches exist now, and be able to adapt and reuse them.

Here is an example.

> In a conversation with an IT executive, a financial executive said that he wanted to implement and automate certain types of financial management practices. The IT executive thinks: "Ah ha, sounds like he is looking for a software package!" So he asks his staff to use existing organizational practices to research and identify the leading software packages in the area of financial management. As candidates, they identify such software packages as Oracle Financials and SAP Analytics.[2]
>
> If the need of the financial executive is pursued as an organizational initiative, a project or program manager in the IT area will, as a beginning point for planning, reference a portion of the organizational IT practices that deals with "Commercial-Of-The-Shelf (COTS) Selection, Planning and Implementation."

Determining the type of work, or the context for the work, has a direct correlation to the selection of an approach to the completion of the work, and the identification and the use of capabilities, experience, and well- understood and documented methods and practices.

In this example, the "type of work" identified is that which deals with the selection and implementation of COTS (packaged) software.

The type or context for the work for getting started with portfolio management and its practices has multiple elements. We will examine three elements.

Capability assessment

Portfolio Management, as a discipline, does not exist in isolation. Rather, it is effectively exercised based upon a solid foundation of existing organizational (and individual) capabilities. These capabilities support, enable, and sustain certain aspects of the work of portfolio management.

For example, much in the same way that excellent hand-eye coordination is a sustaining capability for a baseball or cricket player, the existence of a solid project management capability is a sustaining capability for portfolio management.

Let us define capability assessment as follows:

> Capability assessment is the activity of surveying, analyzing, and measuring the ability of organizations and individuals to perform and be successful at some discipline.

In order to be successful with portfolio management, there are a number of enabling capabilities which an organization and its staff must possess.

One of the early tasks on the road to the successful use of portfolio management and its practices is to survey the current state of these enabling capabilities and to measure their maturity across the organization.

The survey results, when analyzed, will indicate which enabling items provide a solid foundation and where some improvement work is required. For the areas in which improvement is needed, it is possible to define, plan, and execute multiple efforts over time to improve various capabilities, and to achieve a maturity and practice level which will contribute to enabling and sustaining one or more aspects of portfolio management and its practices.

It is important to understand that there are a variety of models and practices which exist and which can be used to define and to plan a form of capability assessment appropriate to portfolio management and its practices.

Process definition and implementation

Portfolio management is a discipline. Its exercise requires the definition, communication, and use of agreed policies, principles, and practices shared by all in the organization. Taken all together, the combination of these policies, principles, and practices form the basis of an *organizational process*.

Here is an illustration:

> Consider a group of investors that decides to go into the automobile manufacturing business. The approach they use is to hire individuals with previous experience in various aspects of automobile manufacturing. They lease manufacturing buildings, and they order a variety of machine tools. They appoint a chief executive officer (CEO).
>
> On a specific day, all of the staff are directed to report to work. The leader of the investment group, and the CEO, deliver short remarks to inspire the workers for the future. Finally, they are all directed to "get to work," and they are wished "good luck."

In this rather simple (and not very realistic example) one element (among many!) is missing. There is no agreed and ordered set of work steps, allocation of skills, definition of interim results, or metrics for production to guide the work of the staff. That is, there is no *organizational process*.

Portfolio management, as a discipline, must be exercised by means of a number of integrated and interacting work processes. These processes must be defined, reviewed, validated (by means of use) and continuously refined and adjusted.

Their development and introduction (*process definition* and *implementation*) and use must be accompanied by the work of communication, consensus building, risk management, assignment of responsibilities, and other effort to ensure that they are effectively instantiated, and also "fit" into the overall ways-of-working of the organization.

Again, there are a variety of models, and methods and practices which deal with the definition (or "tailoring" of existing) of processes, and the implementation of processes within an organization.

Organizational change management

Organizations are complex organisms which evolve continuously. They contain individuals and organizational entities with multiple (and often competing) goals, a variety of functions and initiatives which are carried on, and a need for successes in the form of results and deliveries which create the revenue to ensure the continuance of the organization.

Portfolio management is a discipline which requires the definition and implementation of specific organizational entities and individual roles in order to establish who carries on what work effort.

Clearly the existing organization -- as a complex organism -- will be impacted by the need to "fit" a new discipline and its organizational entities, individual roles, and also its goals, and functions, into the existing order.

The type of work effort which is concerned with the capabilities, policies, and practices that, ideally, are successful in the introduction of change into an existing organization is typically identified as *organizational change management*. The disciplines associated with organizational change management provide an approach, a lifecycle, and well-understood work products and outcomes to minimize the impact and the risk of the insertion of change into an existing order.

Understanding the current state: Capabilities and readiness

My second key point is that management must assess and understand existing capabilities within the organization that will be required to enable and sustain the exercise of portfolio management practices. Management must also determine if the organization is ready to move ahead with portfolio management practices introduction and implementation.

Management needs to identify an organizational starting point that will provide needed input to the development of an implementation strategy for portfolio management practices.

As anyone who has done any cross-country hiking will tell you, there are two data points which must be in-hand before a course can be plotted: the *starting point* and the *ending point*. A compass and a good map will do you no good unless you know where you're starting and ending.

This is not an over-simplification. Many times in various kinds of projects and programs, there is a great deal of time and work devoted to identifying the *ending* point. Definitions of success are written, lists of expected work products and outcomes are prepared, and project milestones and a completion date are defined. Too often, however, little attention is paid to the *starting* point: what resources are available for work, what tools will be used, what are the capabilities of the available resources, and are there dependencies which can impact when and how to start?

The capability assessment will provide an understanding of the organizational and individual capabilities which exist, and will determine the degree of readiness to take up portfolio management practices. A capability assessment will provide a profile across multiple capabilities and indicate for each capability a current state of mastery along some scale that is meaningful to the organization.[3]

Remember that capabilities are additive, with those at a lower levels providing a foundation to the acquisition of those at the higher levels. Achievement of advanced capabilities is dependent upon success in building capabilities at the basic level.

This additive capability also applies to portfolio management practices. Here is an illustration:

> The executive management of an organization interested in the implementation of portfolio management practices sees a value in the use of "dashboard" features and functions in a portfolio management toolset. This will provide performance and ranking information about the organization's initiatives in an objective manner, which is easy and quick to grasp.
>
> Initiatives that are performing well are depicted in a color, shape, and location on the dashboard, which makes the membership of a group of initiatives in the "good" group readily apparent. Those initiatives not performing well are also just as readily apparent by color, shape, and location.
>
> However, data must be input and transformed to create a dashboard representation which is accurate, metrically sound, and allows some analysis of data. The development of this input data is dependent upon a variety of basic practices, including time reporting and tracking, project planning, plans maintenance, similar use and scale of metrics, uniform time periods for tracking, etc.
>
> The organization must have and exercise a set of basic capabilities, such as those identified above, in order to acquire a more advanced capability such as the production and maintenance of an executive dashboard that is accurate and timely.

From this illustration, it is clear that the *readiness* of an organization to apply and to use portfolio management practices is dependent upon the type and degree of basic capabilities it possesses. The corollary is that it must be possible to assess and to measure this readiness.

Lacking a formal instrument, it should be possible to identify the contributing basic capabilities which are required to enable portfolio management. And it should be possible to assess and to some degree measure the presence of these capabilities in terms of *significant*, or *somewhat used*, or *not present at all* ("none" to "significant").

The results of such an assessment and measurement effort for basic capabilities can provide an indicator of both the *readiness* of the organization for the introduction of portfolio management practices, and a guide for the construction of *action plans* to remediate outstanding deficiencies in these basic capabilities.

Needs: First things first

My third key point is that the set of portfolio management practices may be introduced in stages. However, you must understand and agree on the most urgent needs and/or the most potential value, and then implement the sub-set of practices which will most directly address these.

Introducing PPM in stages requires identifying and providing an order of importance, or value, to the needs which underlie the organization's desire to implement portfolio management practices.

Naturally, implementation of portfolio management practices within an organization is a significant undertaking. It ought to be driven by significant needs, which are well-defined, about which there is consensus, and for which there is firm commitment.

It should also be made clear that there are multiple paths to an implementation of portfolio management practices and that these practices may be iteratively implemented. In short, portfolio management introduction may be staged with some components introduced early, and some later. And, each introduction provides value in and of itself.

Here is an illustration:

> A very large organization planned and completed an analysis of IT programs and projects over a three-year period. The actual numbers in the analysis confirmed the impression of the CIO: A significant portion of the IT programs and projects that were approved and started were later abandoned. Many of these were large-scale efforts. From a financial point of view, what had been planned as capitalized assets immediately became expenses.
>
> Further analysis indicated that many of these programs and projects had very poor context and definition. It was not clear what the expected benefits and outcomes were. They were poorly linked to the overall direction of the organization; rather, they were approved solely on the basis of their internal contents -- for example, having available resources, understanding which technology would be used, and defining a timeline and milestones for delivery would be sufficient for project approval.
>
> One of the answers put in place to address the problem was a new process for developing, reviewing, and approving a comprehensive business case for each proposed new program or project.

The use of an effective business case process is one aspect of portfolio management practices. Its use has very few dependencies on other practices in the portfolio management workspace. It is possible to develop, refine, and introduce this process to address an organizational need in a fairly simple and straightforward fashion, and it requires very little in the way of infrastructure to enable and sustain it.

In this illustration, analysis confirmed that the organization had an urgent need and provided a clear priority for this need to be addressed. Within the portfolio management workspace, a set of practices around business cases was constructed and introduced. The ultimate goal was to reduce the number of abandoned large-scale efforts.

This makes clear that the organization must understand and agree upon the needs for the introduction of portfolio management practices. And, that the organization must also be able to provide some order -- in terms of importance and of "value" -- to the introduction of specific portfolio management practices. This will ensure that there is demonstrated "value" early in the implementation process, which will encourage and sustain the continued use of existing practices; and the introduction of new ones.

Setting a direction: An implementation strategy

My final key point is that the introduction and implementation of portfolio management practices should be considered an organizational initiative requiring the same practices and usages that the organization applies to any of its significant initiatives. This includes constructing an overall approach to the introduction and implementation of portfolio management practices and making a commitment to its execution.

Most large organizations have experience with major initiatives and possess their own practices for the definition, justification, direction setting and launch of large organizational changes. These experiences and practices have evolved from various efforts; for example, research and development, new product development, and IT software and infrastructure delivery.

The implementation of portfolio management practices should be approached in exactly the same manner as any other large organizational initiative; and it should take advantage of these organizational experiences and practices.

In this article I have used the term *implementation strategy* to include multiple types of work effort, work products, and outcomes. Among those we would expect to see are:

- Definition of the initiative for portfolio management implementation, including contents of the initiative, boundaries, inclusions/exclusions, target business segments, enabling business units, and definition of success
- Justification for the introduction of portfolio management practices, including identification and quantification of expected benefits and returns, and quantification of expected one-time and ongoing costs
- Commitment to the implementation and for continuous operations in the portfolio management workspace made (and documented) by the executive management of the organization
- Identification (at a high-level) of an approach to the portfolio management implementation effort, including: definition of potential workstreams, major milestone-oriented timeline, identification of an executive sponsor, definition of major work products and outcomes, and anticipated composition of the implementation team.

The list provided above should be familiar to those experienced in the definition, planning, and mobilization of large initiatives. In fact, it is strongly suggested that the implementation of portfolio management practices be defined and executed as a *program effort* (rather than a project effort). There are a number of distinct advantages to the program structure for large scale initiatives, such as the implementation of portfolio management practices.[4]

Additionally, consideration should be given to securing outside assistance, in the form of a consulting organization with a past record of successes in: 1) the introduction of portfolio management practices, 2) the management of the associated organizational change, and 3) in the definition and construction of a supporting technical environment.

Here, too, there is an expectation of behavior that is the same for portfolio management introduction; as for any large or important organizational initiative. True, the use of outside assistance requires some expenditure; however, it may also be seen as a risk-reduction mechanism.

Summary

The introduction and the implementation of portfolio management practices into the organization is a significant undertaking. The potential value it offers is present in multiple dimensions: achievement of goals and goals components of the business strategy and direction, better overall oversight and control of initiatives, improved application and targeting of all resources (human, financial, technical) to the real needs of the organization and the delivery of value.

As with any significant undertaking, there is a need for well-understood risk management to improve the chance of success.

I believe that understanding and addressing these four key points will assist in prudent risk-taking, as well as improve the likelihood of success in the introduction and implementation of portfolio management practices into the organization. To recap, these points are:

- Understand what type of work effort the introduction and implementation of portfolio management practices is,

in order to identify an effective approach; and, also to identify which capabilities and experience within your organization (or outside it) you will require.
- Assess and understand the existing capabilities within the organization which will be required to enable and sustain the exercise of portfolio management practices; and, determine if a state of "readiness" exists to move ahead with its introduction and implementation.
- Introduce the set of portfolio management practices in stages. However, you must understand and agree on the most urgent needs and/or the most potential value, and then implement the sub-set of practices which will most directly address these.
- Use the same practices and usages that the organization applies to any of its significant initiatives, because the introduction and implementation of portfolio management practices is a significant initiative.

Notes

[1] From http://www.morganstanleyindividual.com/customerservice/dictionary/

[2] SAP Analytics is a product produced by SAP Americas is a subsidiary of SAP AG. The Oracle E-Business Suite Financials Family of Applications is a product produced by Oracle.

[3] CMMI aims at providing a profile for organizational capabilities in the area of software delivery. See the SEI Website for more information on this approach, at http://www.sei.cmu.edu/

[4] If the term "program" or "program effort" is unfamiliar, see Mike Hanford's article "Program management: Different from project management," at http://www-128.ibm.com/developerworks/rational/library/4751.html

About the author

Michael F. Hanford is the chief methodologist for the IBM SUMMIT Ascendant methodologies and a member of the IBM Rational commercial methods content team. He has also worked as a methodology author, a manager for large consulting engagements, and a leader of enterprise process assessment and transformation efforts for IBM Rational and PriceWaterhouseCoopers Consulting (PWCC). Prior to joining PWCC, he was director of software engineering practices for Fidelity Investments Systems Company.

