Portfolio management governance
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Establishing portfolio management governance: key components.

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What is portfolio management?

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

Highlights

Managers must select initiatives that best support diverse business goals and the enterprise's business strategy.

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) to select those that best support and enable diverse business goals (i.e., they diversify investment risk).

Managers must also manage their investments by constantly monitoring and making decisions about which initiatives to undertake, which to continue and which to reject or discontinue.

What is governance?

Governance is one of those terms everyone knows until they're asked to reduce it to a few simple sentences. So a definition seems a good place to begin. We will start with understanding the idea of governance in general; then we'll move on to the subject of governance specifically applied within the context of portfolio management.

Let's start with a dictionary definition. One definition provided is:
gov•er•nance *n.*
1. government; exercise of authority; control.
2. a method or system of government or management.[2]

A competing dictionary tells us that governance is:

The act, process or power of governing.[3]

Highlights

Governance is about establishing authority to empower people.

Governance is also about establishing control mechanisms to empower people.

Making use of both dictionary definitions, we must deal with ideas and concepts around the exercise of authority or control. Further, we must look for insight into the act of exercising this authority, the underlying process for that exercise and the power or powers that enable its exercise.

For the purpose of this paper, the identified concepts and insights and their explanations are bounded within the context of governance for the exercise of portfolio management as an organizational process. More specifically, this discussion is about portfolio management as it applies to initiatives or projects. However, this discussion is largely applicable to the use of portfolio management practices in other areas, such as products or software applications.

This paper identifies ideas and concepts that relate to the definition and implementation of a governance mechanism as part of an organization's adoption of portfolio management. This paper does not discuss the specific steps, roles and work products that are needed to implement portfolio management governance, but it is hoped that the identified ideas and concepts provide a springboard for needed executive discussion and review in this important area of organizational governance.

Highlights

What, then, is the connection between the subject of this paper—governance, and particularly portfolio management governance—and portfolio management for initiatives or projects? In the introduction to this article, we noted that:

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

And, that:

They (managers) must also manage their investments by constantly monitoring and making decisions about which initiatives to undertake, which to continue and which to reject or discontinue.

It seems that, given our definition of governance, most organizations have already taken care to institute such a function by appointing managers and giving them authority to manage their initiatives investments. Right? Well, not entirely.

It seems that an organization's managers should be enough to provide governance. Not so.

Managers do not exist in isolation. They are part of either a business or governmental entity—that is, a corporation or government agency. These are legal entities. As part of their operation, they define and authorize certain policies, and they delegate the authority to implement those policies. Moreover, corporations and government agencies have duties and obligations, and, in varying degrees, they're regulated.

Highlights

As reported in the press in recent years, the United States has seen some spectacular corporate and public accountancy failures, ethical violations and illegal actions. We have also seen new laws (e.g., the Sarbanes-Oxley Act) that provide for substantial penalties should a company fail to properly implement and use internal controls for financial reporting. It is within this context that calls for better governance have originated.

Simply installing managers to provide governance is no longer enough. A new governance mechanism must be created.

Simply installing managers and giving them authority to manage their investments in initiatives is no longer enough for providing good governance. Worse, simply installing managers and granting them authority may result in a variety of standards and practices applied to the organization's initiatives, and to the assessment of their continuing value. The variety of standards and practices may (by design or by accident) expose the organization to risk as a result of poor information reaching the executive level as an input to enable effective oversight.

A governance mechanism provides a framework for action, information and decision making as they affect enterprise-wide initiatives.

It is necessary, then, to create some mechanism for governance that will provide a framework for action, information and decision making as they affect initiatives. These initiatives are created to enable and achieve the goals of the organization, and they are organized into portfolios for management and control.

Let's return to the question raised earlier:

What, then, is the connection between the subject of this paper—governance, and particularly portfolio management governance—and portfolio management for initiatives or projects?

Highlights

Portfolio management as a discipline is about decision making as it affects initiatives investment.

Portfolio management governance is about the structure and process of exercising authority over decision making.

Beyond general governance, corporations must exercise* specifically focused *governance for smaller projects and initiatives.

Portfolio management for initiatives or products is the entire discipline, or organizational process, that contributes to effective, timely and continuing decision making about investments in initiatives or projects. Portfolio management governance includes the structure, roles and principles (or, collectively, the *mechanism*) of portfolio management, as well as the process of establishing and continuously exercising authority over the portfolio management process.

More about this mechanism of governance appears in the next section.

A portfolio management governance mechanism

As noted above, we need to apply the concept of governance within the portfolio management context. And we are going to apply this concept by means of some governance mechanism. Let's be clear: Governance, as applied to business or governmental operations, is hardly an entirely new idea. Corporate entities generally put in place a structure that consists of a board of directors, a chief executive officer (CEO) and a number of senior-level executives (CXs), such as a chief financial officer, chief counsel, etc. This structure, with its defined roles (and their incumbents) provides the *general* or *overall* governance that drives the business direction of the corporation.

Beyond the establishment and exercise of general governance, there is the need for exercising *specifically focused* governance components and activities. For example, a corporation engages in a number of initiatives and efforts that require the expenditure of large capital sums. The goals, the justification, and the expected returns for proposed initiatives and efforts must be thoroughly examined and approved. These must be in the best interest of the enterprise and also conform to applicable laws and regulations. Accordingly, those who exercise general or overall governance will create permanent or temporary entities or functions.

Highlights

Specifically focused authority begs a discussion of how a governance mechanism will operate and who will operate it.

Portfolio management governance is established to ensure that the proper results are obtained from portfolio management.

In the previously cited example (the one concerned with initiatives that require the expenditure of large capital sums), an investment review board is created as part of the overall governance structure of the enterprise. This board is given the delegated authority to review and approve proposals to spend significant capital sums.

Returning to our discussion of portfolio management, the concept of specifically focused authority—when applied to portfolio management governance of the organization's initiatives—is where discussion ensues as to *how* this mechanism must operate and *who* must operate it.

Typically, before the organization determines how the mechanism must work, it will have already decided to make use of the discipline and its practices of portfolio management as a means to ensure the alignment of new and ongoing initiatives with the business strategy and direction. Portfolio management is also seen as a vehicle for providing improved insight into and oversight of the initiatives contained within the portfolios.

To ensure that the proper results from an adoption of portfolio management are obtained, authority is delegated, entities or functions are created, and policies and practices are developed and implemented. Additionally, roles and responsibilities are defined and filled, and decision-making rules and powers are identified. In a word, we establish *portfolio management governance*. (If you return to the definitions of governance, you'll see that this usage conforms.)

Highlights

An executive oversight group commissions investigations to address the effectiveness of projects and initiatives.

The executive oversight group must then take steps to establish portfolio management governance.

Who plans and carries out the establishment of portfolio management governance?
Usually, some need or deficiency in the strategic alignment of projects and initiatives or in the derivation of value from these projects and initiatives comes to the attention of the executive level. An executive oversight group commissions an investigation into solutions. This investigation is delegated to one member of the executive oversight group for execution. The assigned executive forms a working group or investigation team. The team identifies the practices of portfolio management as a potential solution.

With discussion and agreement at the executive level, a project is initiated to select and fit solution components from competing consultants, tools vendors and solutions in the marketplace for defining and establishing portfolio management governance.

This is a quick snapshot of a scenario that addresses the question of who does the work to identify the needs, and how a solution for the adoption of portfolio management begins to form. It is not, unfortunately, quite as simple to actually *establish* portfolio management governance. Goals must be identified. Metrics and measurements must be defined and validated as providing feedback that the goals are being achieved. Various governing models must be reviewed, and their fit into the existing corporate structure, ways of working and corporate culture must be understood and agreed upon. The governance model or framework needs to be drawn, and the various functions and roles it contains must be determined.

Ideally this work is planned and carried out by a dedicated team of business and IT managers, external portfolio management consultants and subject matter experts. And the work should be under the overall direction of a member of the executive oversight committee.

Highlights

Portfolio management is concerned with effective, timely and continuing investment decisions about initiatives.

Portfolio management governance is the structure and exercise of authority for the initiatives and portfolios within the portfolio management domain.

In the next section, we provide some thoughts on the process and results that are required for the definition, validation, consensus building and implementation of governance for the portfolio management domain.

Before leaving this section, however, it is worthwhile to touch again upon the differences between the goals of portfolio management and those of portfolio management governance:

Portfolio management *is a discipline that is concerned with effective, timely and continuing investment decisions about initiatives. These initiatives enable goals and goal components of the enterprise business strategy.*

And…

Portfolio management governance *is both the structure and the exercise of authority for the initiatives and the portfolios within the portfolio management domain, which defines and enables decision making; assesses metrics on initiatives value and alignment with business strategy; and is responsible for effective and legitimate oversight for the contributions to business success of these initiatives and portfolios.*

Highlights

The term* mechanism *includes the process, structure, actions and authority that constitute the components of portfolio management governance.

A discussion of the establishment of portfolio management governance must proceed from a well-understood foundation of concepts and ideas.

What do we mean by a governance mechanism?

Before we end this section of the paper, it is important to explain the use of the term *mechanism*. If we return to our dictionary definitions of governance, we find that they embrace multiple components. These include:

- *Exercise of authority*
- *Actions—the act of governing*
- *Government—a structure or function*
- *Process definition—the process of governing*
- *Power—the authority to decide or to compel*

Inherent in these components are…other components. These other components include policies or principles (in political governance, a constitution, for example), roles and responsibilities, an organizational structure, metrics, feedback processes to provide information, and so on. As a convenience, we use the term *mechanism*, as in *governance mechanism*, to include all of the identified components.

Establishment of portfolio management governance: what are the key components?

A discussion of the establishment of portfolio management governance needs to be grounded. That is, it needs to proceed from a well-understood foundation set of concepts or ideas, which underlies the use of certain components.

Highlights

Guiding principles for portfolio management governance must be well aligned with the organizational culture and with what is possible within that culture.

A work in progress inside the IBM Rational® software group identifies a number of key components that provide this grounding or foundation. And, it is suggested that the process of establishing portfolio management governance takes into account these key components. For each, the results achieved through the establishment effort must provide policies, standards, structures, exercisable practices, definitions of expected results, feedback devices to assess effective and correct usage, and the means to make adjustments.

These key components are:

- *A set of portfolio management governance principles*
- *A governance framework or structure*
- *Controls implementation that enables and sustains an oversight capability*
- *A definition of decision-making authority*
- *Assurance of the legitimate exercise of authority and decision making*
- *Identification of needed enabling and sustaining functions, and of governing roles and responsibilities*

A review of each of the key components provides insight into various aspects of the governance establishment needs and work efforts.

The exercise of portfolio management governance must proceed from a shared vision of what governance is.

A set of portfolio management governance principles

The exercise of portfolio management governance must proceed from some shared vision of what governance is—together with its role, aims and expected results. At a practical level, this vision must align with the realities of the corporate culture, as well as with what is possible within that culture.

Highlights

Part of a portfolio management adoption effort is the review of multiple successful portfolio management governance experiences.

A statement of portfolio management governance principles defines and commits to a policy about major decisions.

Strong and centralized portfolio management governance, for example, may be difficult to implement and less than effective within a corporate culture that is driven by consensus. Directives and decisions issued from this centralized governance function will be debated outside the range of that governance, and likely implemented much differently than intended—if at all.

As part of a portfolio management adoption effort, there is a need to review multiple successful portfolio management governance experiences and, as part of this review, it is necessary to ask this question: *Will this model/role/function work in practice within our enterprise values and ways of working?*

The elements of the governance experience that are accepted as workable or as good fits for the organization are best expressed in a set of portfolio management governance principles for the enterprise. These portfolio management governance principles may be in the form of statements, a bullet list of items or a written document. An example of such a governance statement is:

Decisions about the future of an initiative, expressed in a continue/change/discontinue decision, will be made as a collective executive effort, not by a single executive.

This statement defines and commits to a principle about major decisions. And it must be reflected in the roles, decision-making authority and agreed-upon governance structure for the exercise of portfolio management within the enterprise.

Highlights

A common artifact of a governance framework or structure is an organization chart.

Within the statement of portfolio management principles, there is also the need to be explicit as to the ethical and legal values and behavior that executive management requires when the authority and responsibilities of this governance are exercised. More on this later.

A governance framework or structure

Governance is exercised within a defined and published structure or framework. This allows those both inside and outside this structure to arrive at the same expectations around roles and authority. A common artifact of a governance framework or structure is an organization chart. Figure 1 shows the organization structure within a large-scale program effort.

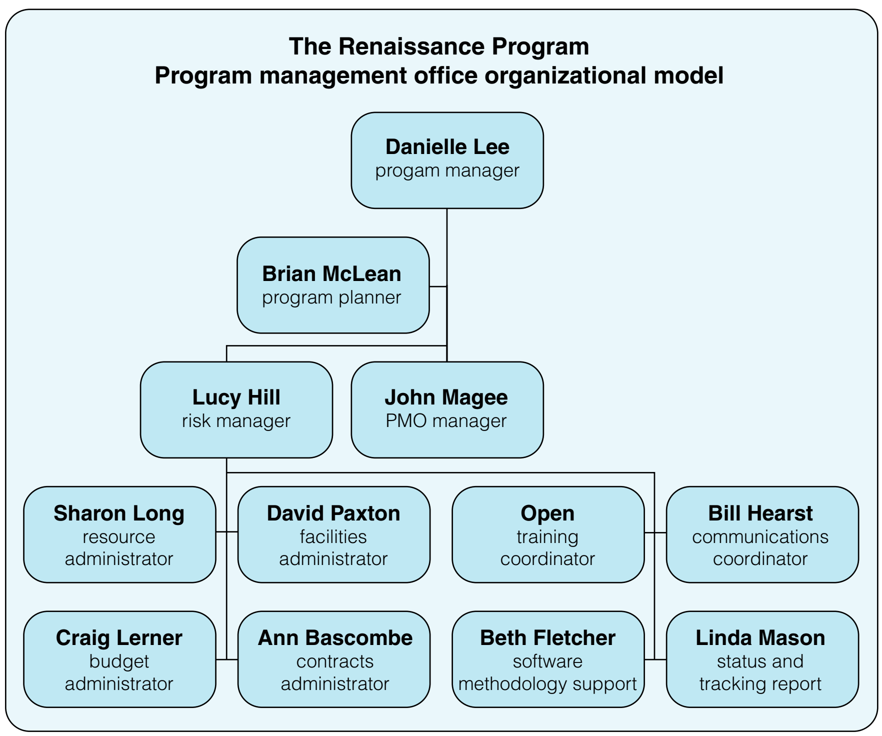

Figure 1: Sample organization chart—a familiar structure that identifies reporting relationships and, by inference, some decision-making authority

Highlights

Because we understand the conventions of an organization chart, figure 1 tells us that John Magee reports to Danielle Lee. Also, since we understand the usages of an organization chart, we know that Brian McLean is not in the direct line of authority for decision making as part of the Renaissance Program. These two points are clear to any reader or user of this organization chart, provided that he or she understands the conventions and usages of such a diagram.

The portfolio management governance structure provides clarity around decision-making roles and authority.

Similarly, with the establishment of portfolio management governance, a structure is defined that provides information, clarity and answers surrounding such questions as "Who reports to whom?" and "Who is (and isn't) included in the decision-making process?"

If the governing structure is going to be workable and accepted by all, discussion and consensus building must occur.

The act of defining a portfolio management governance structure raises—which means it must then address—significant questions around the exercise of authority over portfolios and initiatives. The result of this definition effort, when effectively carried out, is reduced to a picture (or other form) that is simple and mostly unambiguous. However, this simplicity and clarity result from extensive discussion, some negotiation and an effort to achieve consensus. It is the discussion and consensus building that matter more than the actual picture if the governing structure is to be workable and accepted by all.

Highlights

The visible results for this act of defining a portfolio management governance structure would include such work products as:

- *A mission statement for the governance entity*
- *Role identifications and descriptions*
- *Definition of responsibilities*
- *A Responsible, Accountable, Consulted, Informed (RACI) chart for decision making*
- *Some list and description of major functions*

An effective portfolio governance mechanism requires tinkering and adjusting.

Controls implementation that enables and sustains an oversight capability

It would be nice if the effort to define and implement a portfolio governance mechanism took the form of *define, agree, implement and use forever!* But this is seldom the case. Things that seem simple and logical at the time of definition may not work as well in practice. Internal and external events may affect the effectiveness or relevance of the governing mechanism. The simple impact of change over time may require tinkering and adjusting.

A feedback and control system is required to understand the changing state of a governance mechanism, and to enable organizations to adjust their efforts.

Being prepared and equipped to address the impact and needed changes arising from both the implementation and the continuing exercise of a governance framework requires the definition and implementation of submechanisms (and software tools). These submechanisms and tools collect both information and operational feedback, and are capable of interpreting the meaning of the information or feedback. They also give an additional capability to define and direct change. In short, a feedback and control system is required to understand the changing state of our governance mechanism, and to allow us to make needed adjustments.

Highlights

Part of the development of a feedback and control system is the identification of the measures and metrics that need to be collected.

A significant part of the development of a feedback and control system is the identification of the measures and metrics that need to be collected. This is not as simple as it sounds. The measures and metrics must sample what is happening at a point in time. What and why specific information is needed and what it is used for are significant discussions.

Additionally, the tools, in the form of analysis routines, reports and dashboards, must be able to interpret the information and provide trending information as well as predefined alerts. This ability to analyze, interpret and alert must be inherent in the tools, but it is defined and specifically shaped by the needs—and the knowledge and vision—of those who are responsible for monitoring and adjusting.

Once collected, the measures and metrics must be validated as providing useful and important information that can help the governing body to direct change. It is useful to address controls and the definition of measures in two contexts:

Controls and measures must address the effectiveness and the performance of the portfolio management governance mechanism.

- *First, there are controls and measures that qualify that the portfolio management governance mechanism is effective. These ensure that the mechanism is fulfilling the identified goals and vision of portfolio management governance.*
- *Second, there are controls and measures that qualify that the portfolio management mechanism is operating within agreed-upon parameters (i.e., correct and allowable operation).*

Highlights

Periodic reviews are an important component of the portfolio management governance mechanism.

An effective governance policy requires random checks for conformance to policies, and assessments of preparation activities for initiatives and programs.

The following provides an example of measures and metrics in each of the two contexts.

It is decided that, as an item of governance policy, a notification must be provided two weeks prior to a defined milestone date for any major initiative in a portfolio. This is an alert. The reason for this policy is to provide an opportunity to check that any identified reviews associated with a milestone are being prepared and are on track for completion. Periodic reviews are an important component of the portfolio management governance mechanism.

Produced on a weekly basis, a defined report identifies all milestone dates, minus two weeks, within a horizon of the next eight weeks. The report also shows the planned start date and the actual start date for review preparation activities. Additionally, it shows the planned completion date for all scheduled reviews.

A review of the report provides evidence that the policy is or isn't being followed, and that the preparation and execution of periodic reviews as a component of the portfolio management governance mechanism are effective.

In the second case—that of ensuring that the portfolio management mechanism is operating within allowable parameters—the following is an example.

The Enterprise Portfolio/Program/Project Management Office (EP^{3}MO) produces the report, identified in the previous example. An additional part of the governance policy (referenced above) around milestones requires that the EP^{3}MO randomly check reported conformance to the policy by assessing the reviews' preparation activities for a number of initiatives and programs. As it turns out, some portfolio managers and project managers understand that the requirement to start review preparation takes the form of a state change for the initiative to *Portfolio or Initiative Review Event (PIR Event)—Periodic Review: In-Planning*. In fact, the actual work to prepare for the periodic review has not yet started.

Highlights

Based on the results of reviews and assessments, the governance committee alters or refines policies.

The results of the random survey are reported to the portfolio management governance committee. After discussion, the committee determines to change the policy to specifically require that the first step in periodic review preparation must be completed in order to report actual start and to conform to the intent of the governance committee. Typically, this first preparation step takes the form of a profile review, which assembles a group of metrics to profile the current performance and conformance of the initiative to expectations. The profile data provides a basis for detailed review planning.

With this change in the policy, a small portion of the governance mechanism is refined and adjusted to alter the range of performance within allowable parameters.

Continuous operation of the portfolio management governance mechanism requires a continuing system of information, feedback and metrics, together with the structures and authority to adjust the mechansim.

In summary, *continuous* operation of the mechanism of portfolio management governance requires a *continuing* system of information, feedback and metrics, together with the structures and authority to make ongoing adjustments to that mechanism.

A definition of decision-making authority

Earlier in this paper, we mentioned some of the things that portfolio managers do. Among these are:

- *Group initiatives into portfolios.*
- *Ensure initiatives are well aligned with business goals.*
- *Choose among competing initiatives (in multiple contexts).*
- *Exercise continuing oversight.*
- *Exercise continuing decision making.*

Highlights

The lines of authority to make or recommend decisions with significant impact must be clear, specific and traceable.

Because many organizations are subject to audit and external review, it is important to produce simple artifacts that define the lines of authority simply and clearly.

An essential component of all these actions (stated explicitly in the last one) is the ability and the authority to make decisions. A proportion of these decisions has significant impact in many dimensions across the enterprise. For example, suppose that a recommendation is made to cancel a major initiative linked to the number one business goal of the organization. If carried out, the recommendation would have significant impact across the organization, involving the business direction, major capital investment, application of resources (i.e., staff, perhaps consultants or contractors, and funding as part of at least one budget) and contracts that bind the organization. Ordinary business prudence (and—need it be said—good governance) suggests that the lines of authority and the power to make or recommend decisions with significant impact be clear, specific and traceable.

It is important to remember that in certain industries or governmental entities, actions and decisions that result in such major impact may also be subject to audit or external review (including review by regulatory agencies). They may also have legal ramifications. This means that the definition and the exercise of decision-making authority—just as with the portfolio management governance structure—need to produce comprehensible artifacts that define the lines of authority simply and clearly. They must also correctly capture the intent of the complex discussion, negotiation and consensus around this authority.

Highlights

A decision-rights matrix graphically represents who makes what decisions in an organization.

These artifacts can take the form of:

- *A governance policy for decision making*
- *A set of RACI charts*
- *A decision-rights matrix*

As with the example in figure 1, the decision-rights matrix shown in figure 2 is drawn from a large-scale program effort.

Decisions-rights matrix

Role name	Decision major area	Decision and subject	Decision qualifiers
Program sponsor	Program boundaries	• Changes in scope	• Final authority on scope changes
	Budget/Capital Budget/Expenses	• Approval of capital expenditures • Approval of single item	• None • $5000+
Program steering committee	Program boundaries	• Changes in scope	• Consulted and advised on changes
	Budget	• Budget variances	• Advised of changes and variances

Figure 2: Sample decision-rights matrix

The specific decision-rights matrix shown in figure 2 names each of the roles within the governance structure of the program. For each listed role, a number of major decision areas are named. Within each major decision area, specific needed decisions or the subject of needed decisions is identified. Finally, for each needed decision or subject area, the actual authority limits (identified as decision qualifiers) are provided.

Highlights

The development and distribution of a decision-rights matrix can help those who need to obtain a decision see where the authority for that decision is vested.

An essential component in the portfolio management governance mechanism is clarity around what decisions are made and who is authorized to make them.

In the case of a member of the program staff, especially in a situation in which the program effort is located in multiple locations, this type of decision-rights matrix offers an excellent starting point for identifying whom to approach about a situation in which a decision is needed. We see, then, that the results of discussions and negotiation (and possibly regulatory or legal prescriptions) around allowable authority are reduced to a clear and mostly unambiguous structure.

Not all examples and instances will be capable of being reduced to the unambiguous clarity illustrated in figure 2. However, such a matrix can offer a solid starting point or enable the avoidance of unnecessary searching and discussion. Within the exercise of the practices of portfolio management, the development and dissemination of such a simple artifact can help those who need to obtain a decision see where the authority for that decision is vested and whom they need to approach within the overall governing mechanism to start the decision process.

Portfolio management is about choices

Portfolio management choices, as applied to organizational initiatives, impact the degree to which businesses or agencies will be successful in meeting the strategic goals they have set in their enterprise business strategies or mission statements. Good and effective choices are an outcome—in large part—of a good decision-making process.

Regardless of the selected technique or artifact, clarity around what decisions are made and who is authorized to make, review or validate them is an essential component in the portfolio management governance mechanism—and an essential component in making those good choices.

Highlights

Within the portfolio management domain, authority is granted to ensure that initiatives are well aligned and supportive of the overall strategies and goals of the organization.

The goal for all of these actions and activities is to ensure that the use of delegated governance authority is effective, meets the spirit of the defined policies and is used in a manner that is ethical and legal.

A definition of decision-making authority

Corporations and governmental entities grant authority across organizational functions, entities and roles in order to carry out the goals, activities and policies of the organization or agency. Within the portfolio management domain, authority is granted to ensure that proposed initiatives are approved in the best interests of the business and its goals. Further, portfolio management governance authority is granted to ensure that existing initiatives are subject to both strategic and tactical reviews, which ensure that these initiatives continue to be on track to deliver needed value and defined benefits (within the expected size and time ranges), and that they perform and conform to agreed-upon plans and parameters. Finally, this portfolio management governance authority is granted to ensure that all initiatives within the portfolio are well aligned and supportive of the overall strategy and goals of the organization.

That said, there are limits and acceptable behavior that surround the exercise of delegated authority. The set of portfolio management governance principles, defined early in the adoption of portfolio management practices, provides some guidance around what is acceptable. The overall corporate or agency governing policies and principles is another source for the definition of acceptable and ethical behavior in the exercise of authority and decision making.

It is important that in the definition of the portfolio management governance mechanism, provision is made for the definition and dissemination of applicable policies, the conduct of governance performance reviews, and the specific exercise of oversight.

Highlights

In portfolio management governance, it is essential to appoint someone who is accountable for ensuring that the exercise of governance and decision making conforms to all organizational policies and principles, as well as to regulations and laws.

Modeling the governance framework or governance structure will reveal the lines of authority and define the relationships of the entities or functions to one another in terms of authority and decision making.

Assurance of the legitimate exercise of authority and decision making

Responsibility for the preceding actions must also be identified. This clarifies who—in terms of roles, functions and organizational entities—is accountable for ensuring that the exercise of governance and decision making conforms to all organizational policies and principles, and also to any applicable regulations and laws. In some organizations, there is an organizational entity who is responsible for the review and oversight of the correct and legal use of decision-making authority. It is likely that such an entity would also be concerned with or delegate some of its authority to the oversight of the application and use of portfolio management to the initiatives of the organization.

Identification of needed enabling and sustaining functions, and of governing roles and responsibilities

This component is linked to the concept of a governance framework or structure. Within the context of the definition and the use of a governance framework to support the functions of direction giving, decision making and providing oversight, the various organizational entities are modeled. This model shows the lines of authority and defines the relationships of the entities and functions to one another in terms of authority and decision making. This is the *governance framework* or *governance structure*. This modeling effort is carried out by members of the portfolio management governance adoption project team.

Highlights

The models for governance should demonstrate the strengths and weaknesses, the fit to types of organizations and cultures, and the degree of success in their application and use.

It is necessary to flesh out the model with definitions of operational responsibilities and major functions that will be performed.

This work typically proceeds to locating and identifying a variety of existing models for governance. These can be distributed, hierarchical, centralized or consensus-oriented in nature. They are likely drawn from other business or government organizations, and from best-practice processes and examples. Ideally, there is sufficient documentation and usage to demonstrate the strengths and weaknesses, the fit to types of organizations and cultures, and the degree of success in their application and use.

Next, a series of discussions or roundtables is scheduled to review the various models and assess their value and fit to the specific organization and culture. The goal is to synthesize a model that is acceptable and believed to promise effectiveness.

Once these efforts are completed, it is necessary to flesh out the model or the skeleton of the governance framework with definitions of operational responsibilities and major functions that will be performed. This definition effort will ensure that all of the needed work and work activities that are required to successfully implement and sustain the use of portfolio management as an organizational process are identified, assigned and earmarked for having controls built. Likely, the various roles and entities in the governance structure are divided among the members of the governance adoption team for further definition.

Highlights

In the realm of portfolio management work and work activities, enabling and sustaining work activities are supported by the functions, roles and responsibilities of portfolio management governance.

An enabling asset is the portfolio management governance structure itself. A sustaining asset is the work of defining and implementing metrics that indicate governance is effective.

An additional word is required about portfolio management work and work activities. *Enabling* and *sustaining* are two separate types of work activities supported by the functions, roles and responsibilities of portfolio management governance. An example of an *enabling structure* is the portfolio management governance structure itself. As part of the adoption of portfolio management, we understand that governance is required. We know that the discipline of portfolio management requires management, oversight and control, as well as a means to exercise these activities. So, as part of the effort to enable the adoption of portfolio management, we must define, validate and implement a governing structure. When this is done, another step in the adoption of portfolio management as an organizational process can be said to be enabled.

Once we have completed our adoption effort for portfolio management as an organizational process, we need things that will sustain its continued use. The work of defining and implementing metrics that indicate governance is effective as an example of a *sustaining asset.* We define these metrics and agree to their use. We put policies in place and build tools to collect the metrics. The leaders for the portfolio management function regularly review the collected and analyzed metrics. The metrics analysis identifies some operations or practices that are less than effective. As a result, the leaders define actions that are taken, decisions that are made and adjustments that are implemented in the practices and usages of portfolio management. Another assessment of the less-than-effective operations or practices is conducted after the adjustments and changes are in general use. This time, the metrics indicate improvement. The use and application of portfolio management as a solid, useful and effective organizational process is, thus, sustained.

Highlights

The organization chart and the decision-rights matrix are two enabling assets.

Let's take a look at an example of an enabling asset, as illustrated in figures 3 and 4, and reuse previous examples. Within the governance structure of the program, there is an individual role identified as *program manager*. This role is filled by Danielle Lee (see figure 3).

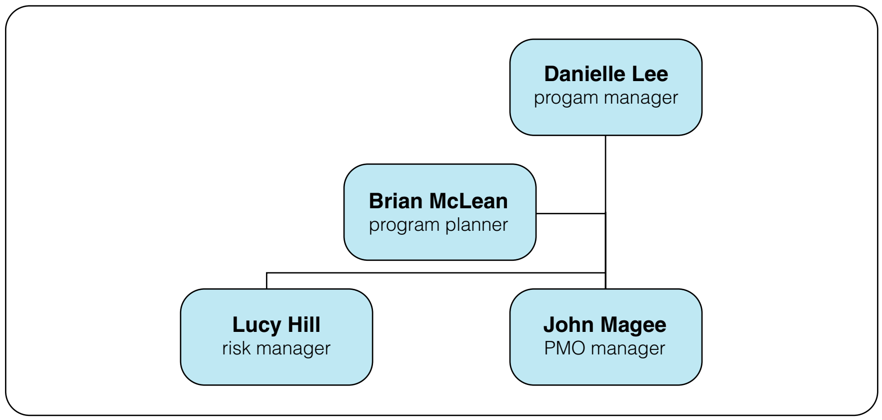

Figure 3: An individual role within the governance structure

This role of program manager has been granted certain decision-making authority as a result of the establishment of the governance mechanism for the program (see figure 4).

Program manager	Program boundaries	• Changes in scope	• May alter boundaries among projects • Required to refer programs boundary and contents changes to program sponsor
	Budget/Expenses Staffing	• Approval of single item • Hiring/dismissal of staff	• $0-4999 • All - except project managers

Figure 4: Program manager decision-rights matrix

Highlights

Using this already-completed work as a baseline, the organizational responsibilities and major functions for the program manager are defined. For an individual role, this typically takes the form of a statement of general responsibility and a bullet list of specific functions and responsibilities. It could appear as follows:

The program manager is responsible for conformance of the program effort to the business and technology strategies. The program manager provides overall leadership and management for the program effort. If several projects are put together into a program, then a program manager is assigned with line responsibilities. In this case the program manager is typically responsible for:

A statement of general responsibility and a bullet list of specific functions provide more detail about decision-making entities in an organization.

- *Scoping and planning the program, including developing and gaining agreement for route maps selected and project plans.*
- *Acquiring the necessary core and specialist team members and support facilities for the time and input required.*
- *Ensuring the key deliverables are produced on time, within budget and in accordance with the agreed-upon quality requirements.*
- *Ensuring that all those involved in the program are adequately trained and briefed in the approach and techniques to be employed.*
- *Ensuring that the program director, sponsor and steering committee are fully informed of progress, potential obstacles to meeting program objectives, and issues that they need to address.*
- *Planning the timing, format and agenda of the executive and steering committee reviews with the program director and sponsor.*
- *Ensuring that quality reviews take place as planned.*
- *Building commitment and agreement to the strategy and its implementation with those managers and staff impacted by the strategy (both business and IT).*

Highlights

The organization chart, decision-rights matrix, statement of general responsibility and bullet list of specific functions should provide sufficient detail about major functions, roles and responsibilities within the governance structure.

In the case of a program, the program manager:

- *Is accountable to the executive sponsors for on-time, on-budget quality delivery for all program elements.*
- *Leads high-level planning work sessions for program plan and schedule development.*
- *Reviews/approves project plans for conformance to program strategy, plan and schedule.*
- *Acts as the communications conduit to the executive sponsors and program steering committee.*
- *Conducts periodic briefings/status updates.*
- *Escalates decisions to executive sponsors as necessary.*

In this way, working through the organizational entities and individual roles identified as part of the portfolio management governance framework or structure, together with the already-defined decision-making authority, all of the major functions, roles and responsibilities are named, described and assigned. To test the correctness of the identification of major functions and responsibilities, a conservation analysis is performed, which ensures that there are neither gaps (i.e., needed functions are not identified, or no responsible role or entity is assigned) nor redundancies (i.e., a function for which more than one role or entity is made responsible).

Highlights

Getting portfolio management governance defined, agreed to and established requires some thought. Begin by asking, "What results should be achieved at each stage?" and "How do we know when each stage is truly completed?"

It is important to ensure that those responsible for organization governance have reached consensus on who, what, when, where and why.

The process of getting portfolio management governance defined and adopted

The work of getting portfolio management governance defined, agreed to and established requires some thought as to what to do first (and second and third…). Begin by asking, "What results should be achieved from the work at each stage?" and "How do we know that each stage is truly completed before moving to the next?"

The subject of the adoption process is outside the scope of this paper; however, the following information is important to note.

A portfolio management governance vision

With the introduction and adoption effort, the portfolio management governance mechanism is a new component within the overall organizational governance effort. It makes sense, then, to ensure that those responsible for organizational governance have reached consensus on the questions of who, what, when, where and why. These questions are asked to ensure understanding among the organizational leaders of the value, operation and sustained direction required for successful exercise of governance over portfolios and their initiative and project contents.

Highlights

An effective way to build consensus around basic portfolio management governance issues is through an executive workshop.

The right sponsorship is a compelling need for the effort to establish portfolio management governance.

An effective way to build consensus and ensure good answers to basic questions is through a group workshop. From this workshop, you should emerge with a shared vision for portfolio management governance. Within a documented vision, it is possible to define and agree to basic principles for portfolio management governance (the basis for policies), to touch upon roles and responsibilities, and to explore industry portfolio management governance models and scenarios for what will and what will *not* work as part of the corporate culture. This shared and documented vision provides guidance and a reference point for much of the remaining work effort of establishing portfolio management governance. It is suggested that such a workshop be planned and led by an outside senior consultant who works closely with the executive sponsor for the portfolio management governance effort.

Sponsorship and leadership

There is no more compelling need within the effort to establish a new governance mechanism than the requirement for the right sponsorship and visible leadership.

It is worth noting that at the time in which the proposed U.S. Constitution was being drafted and ratified (in the late 1780s), arguments that the office of president smelled suspiciously like a king, were brought to nothing when it became clear that there was no other viable candidate to first hold that office than George Washington. He was, indeed, a very visible and unifying force for this new governance effort.

Highlights

A change in organizational governance requires a leader who is part of the organizational leadership group that governs the entire organization.

The work of defining and establishing portfolio management governance is part of a much larger work effort.

The point is that one must give consideration to the fact that a change in organizational governance, such as the adoption of portfolio management, requires a leader who is part of the organizational leadership group that governs the entire organization. The subject of the executive leader establishing portfolio management governance is one that belongs within the portfolio management governance vision development workshop. While this may seem obvious, many times it is simply not seen or understood, and the sponsor or the leader ends up being a member of middle management. This means that establishment of portfolio management becomes a matter of selling upward, for which gaining traction can be difficult.

The structure of the adoption effort

The work of defining and establishing portfolio management governance does not proceed as an isolated effort. Rather, it is part of a larger work effort, which deals with:

- *Identification of organizational needs around initiatives and investment.*
- *Determination to adopt portfolio management as an organizational process.*
- *Understanding of the organizational readiness to embrace portfolio management as a discipline.*
- *Construction of a roadmap for adoption of portfolio management.*
- *Execution of multiple, parallel work streams that complete various adoption initiatives.*
- *Oversight and continuing control and adjustment to refine the work effort to achieve the defined goals and meet success criteria.*

Highlights

The adoption of portfolio management governance should be viewed as a major initiative in the organization; thus, leadership should apply the same management, process and oversight that it would to any other significant initiative.

It is important to view this adoption effort as a major initiative of the organization, and to apply the same management, process and oversight as would be required for any significant initiative that is undertaken to achieve one or more goals of the business strategy and direction. Structuring the adoption effort as a program and applying a program management discipline and set of methods and practices will add a layer of oversight, control and enablement support across the multiple work streams and initiatives that is not found when applying a project structure. The use of this program structure for the adoption effort also acts as a risk reduction mechanism by ensuring solid integration among the various initiatives, and it provides a clear understanding of cross-initiative dependencies.

Summary

In summarizing the points and ideas in this article, we want to start by providing the IBM Rational definition of Portfolio Management for Initiatives as a discipline:

Portfolio management is concerned with effective, timely and continuing investment decisions about initiatives that enable goals and goal components of the enterprise business strategy.

Portfolio management is about decisions that have a degree of impact on the ability of an organization to be successful—or not—in achieving goals embedded in the business strategy.

This definition returns us to and refocuses us on the essential goals and contents of portfolio management as an organizational process and as an adopted component of our organizational governance. Portfolio management is about decisions. And it's about decisions that have a degree of impact on the ability of an organization to be successful—or not—in achieving goals and goal components embedded in the business strategy and direction. Additionally, this definition contributes elements to a completion checklist to see if our effort to establish portfolio management governance has been successful. The contribution is framed by the fact that we are concerned that our portfolio management adoption efforts, and our portfolio management governance mechanism, contribute to decisions that are *effective, timely and continuing.*

Highlights

The portfolio management governance effort must deliver the mechanisms to define, adopt, use and assess that the qualities of effectiveness, timeliness and continuity are being achieved.

The portfolio management governance effort must first deliver the mechanisms and components to define, adopt, use and assess that the qualities of effectiveness, timeliness and continuity are, or have been, achieved. Additionally, the governance effort must ensure that these mechanisms and components are applied and, when needed, adjusted and corrected. Effective decision making implies that the right decisions are made rightly. Our portfolio management governance mechanism identifies types of decisions and who may make them. Moreover, this mechanism will provide the processes to reach such decisions, together with the feedback mechanisms to ensure that the processes are correctly and completely applied.

Decisions are effective when they produce the results that are needed and when those results meet expectations in multiple dimensions for timing, impact, inclusions and exclusions, and contents.

Decisions are timely when they can be successfully applied to an existing situation—that is, before events carry an organization beyond either acceptance or correction of that situation. The achievement of decisions in a timely fashion depends in part upon clear, well-established lines of authority and a clear statement of who decides. Often in organizations, opportunities are missed or a correction is not applied because a lack of decision-making clarity requires time-consuming meetings, discussions and escalations. In many situations, that time is simply not available.

Decisions have continuity when they are exercised against an evolving and current view of what is needed.

Decisions have the attribute of continuity when they are exercised across a significant time dimension against an evolving and current view of what is needed. They also offer the attribute of continuity if—when the results of decisions are viewed as a trend analysis—the decision results that have been achieved did, for the most part, support and enable the achievement of business goals.

Highlights

Portfolio management governance provides the elements of continuity, adjustment and evolving relevance, which are necessary if an organizational process is going to continue to be used.

The adoption of a new organizational process can be cause for celebration, information sharing and efforts at training and mentoring—all of which contribute to the initial use of that process. How often, though, when we examine that process one or two years later, do we find it still in robust use? Portfolio management governance provides the elements of continuity, adjustment and evolving relevance, which are necessary if an organizational process is to continue to be used.

The return on the effort to establish portfolio management governance is significant and well worth the effort to incorporate as part of an overall adoption of portfolio management in your organizational process.

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