In control: how project portfolio management can improve strategy deployment

Launching projects and initiatives to drive revenue and achieve business goals is common practice, but less so is implementing project portfolio management (PPM) to decide on which projects to undertake, then drive through and monitor, in order to achieve strategic objectives. When done correctly, PPM focuses effort on improving strategy deployment.
Authors

Metin Fidan  Partner  
Program Management  
Ernst & Young, Germany  

Anthony Bramwell  Executive Director  
Program Management  
Ernst & Young, Germany
Many organizations have large numbers of change initiatives running in parallel, addressing a wide range of factors. Deregulation, globalization, emerging markets and rapid technology innovation all create challenges and opportunities to which businesses need to respond. And that response requires continuous change across all aspects of the business, including people, processes, organization and technology; for example, mergers, acquisitions, offshoring activities, IT outsourcing and cost-reduction initiatives.

Managing and leading this kind of change is about the ability to cope with the competition, deliver strategy effectively and deal successfully with complexity.

Organizations are increasingly facing conflicting external factors that impact their various strategies, such as regulation (and deregulation), increased competition and restricted access to finance. Complexity is increasing too, adding severe resource constraints to the already high levels of uncertainty.

Having the right strategy in place helps, providing it is executed properly. But making sure the corporate plan is carried out effectively is no easy task. To achieve this, directors should consider project portfolio management (PPM).

Put simply, PPM involves managing the process of translating the strategy and objectives into the right projects and then focusing the execution of these projects on the delivery of overall strategic objectives. When implemented correctly, PPM helps managers to prioritize effort on those projects that have the greatest impact on achieving strategic objectives.

Establishing coherent, objective aligned portfolios while implementing PPM not only provides a clear link between strategy, objectives and projects, but also offers transparency over the decision-making process. With this information to hand, executives are better informed and, in turn, more capable of achieving their goals.
Put simply, PPM manages the process of translating strategy and objectives into the right projects, and then focuses on the execution of these projects.

The link between strategy and projects

To a certain extent, every project relates to a business objective aimed at creating a competitive advantage. In delivery, perception should be focused on realizing business results and generating better performance. Project management is increasingly recognized as a management technique that enables a company to implement a change.

The simplified generic model shown in Figure 1 demonstrates how corporate strategy is translated through transformational portfolios and programs into multiple projects. Strategic changes to the organizational state are cascaded down to a set of projects that are coordinated and managed as a unit in programs, such that they achieve outcomes and realize benefits in line with strategic objectives.

PPM is about decisions or choosing to do the right things. The foundation is formed based on excellent execution, with the triple constraint of delivering the agreed scope, on time and within budget, driving through from decision to completion with an appropriate level of quality. Project management is about doing things right.

Coordinating multiple interrelated projects helps ensure that the combined results achieve the benefits envisioned. Program management is about benefits realization.

From a historical perspective, the discipline of project management has been around from the 1950s and, following years of fairly significant investment in methodologies and skills together with the implementation of project management offices (PMOs), is now relatively mature in most organizations. Portfolio management, on the other hand, originated in the 1990s and is only now starting to become more common, with around 23% of organizations fully practicing and a further 25% partially practicing it. Large software vendors have realized the potential too, with PPM solutions available from Microsoft, CA, Oracle and SAP.

This suggests that there is a great opportunity to improve both the visibility around the decision-making process, the linkage between strategy and projects as well as, potentially, improving the return on investment. In a recent study in the public sector, participants indicated an improvement in overall project success of 30%-40% from implementing PPM.

Figure 1. How corporate strategy translates into multiple projects

![Figure 1. How corporate strategy translates into multiple projects](image)

The right approach: implementing PPM effectively

PPM requires a level of maturity across a number of areas to help in effectively translating and delivering strategy. To demonstrate this, it is easiest to walk through the PPM lifecycle (see Figure 2). PPM is fundamentally a funnel-shaped process. The starting point is the organization’s strategy that needs to be translated into clear goals and objectives.

Corporate strategies sometimes end up at quite a high level, but for the purposes of guiding investment decision-making, this really needs to be at the level of an individual “business driver” and ideally prioritized as well. In their book, Socrates & the Fox, authors Clem Sunter and Chantell Illbury say that the fifth principle of strategy is “Bad tactics can destroy good strategy, but no tactics can rescue bad strategy.”3 [Critical dependency 1: clear strategy and objectives.]

The next step is to work through the current portfolio of projects, programs and ideas and establish the links between these initiatives and the strategy and objectives. At this stage, it is also useful to capture and understand the current status of the running projects, and verify whether all information about those initiatives is robust.

Case study

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well thought-through estimates, indicates a lower level of project management maturity that should be further investigated and resolved. Poor quality estimation data will adversely impact on the quality of decisions made further down the line. [Critical dependency 4: mature project management capability including robust project estimation.]

The next step when creating an effective PPM plan is to make sure the right resources are in place to deliver the portfolio of change. This requires a detailed understanding of human, financial, knowledge and physical resource constraints within the organization.

For example, human resource constraints is not just about having the right number of people available; rather it’s a question of do they have the relevant knowledge, competencies and skills? If subject matter experts (SMEs) are needed, will they be available? Will any external resources be required?

Financial resources address the sticky question of who pays for the projects and how much they pay. At this stage, it is not a project-by-project allocation, but merely a budget “ceiling” to help quantify how much would be available in the current financial cycle.

Knowledge resources refer to how well the existing environment is understood and documented (e.g., “as-is” process documentation) as well as a vision of the future state business and technical architecture and operating model (i.e., enterprise architecture).

Physical resources range from facilities for a major program (floor space, telephone, etc.) to the availability of testing environments. There is no single formula for assessing these constraints, as it will vary from company to company, and also depend on what is available and what the program aims to achieve. Something that is critical for one organization can be trivial for another. What is clear, though, is that resource constraints of all types are a frequent source of project overruns. [Critical dependency 5: understanding the real resource constraints.]

The final step is to establish the portfolio structures and governance framework. While creating one portfolio for all projects is possible, it is generally easier and more effective to manage and govern initiatives when they are divided into aligned clusters or portfolios. The reasons for constructing additional portfolios vary from one organization to the next, but the general rationale is to enable prioritization and balancing of resource constraints across a portfolio that shares a common theme.

There are also several reasons for setting up segregated portfolios, such as addressing specific strategic objectives, having a common group of stakeholders or sharing a pool of funding. For example, an organization may implement portfolios to separate revenue-generating projects from initiatives that tackle any mandatory statutory or regulatory requirements. These sorts of mandatory projects commonly don’t have a positive return on investment (ROI) and are aimed at achieving very different business objectives from revenue growth type projects, for example, which make them incompatible within a portfolio.

While segregated portfolios may have unique characteristics, such as governance structure, prioritization method and criteria, it is important to make them as flexible as possible to accommodate any structural changes or developments that may occur over time. In our experience, organizations tend to run four to six portfolios, as this provides for sensible segregation for prioritization and does not generate too much in the way of administrative overhead. [Critical dependency 6: establish portfolio structures and critical dependency 7: defined governance framework.]
Prioritizing and balancing portfolios

After establishing project portfolios, management needs to focus on prioritizing the projects within the portfolios and balancing them. The aim is the “efficient frontier” where resource usage maximizes the expected return — in other words, the right combination of high economic value and high strategic alignment (see Figure 4). Initially, this is a “technical” exercise, coming up with the list of projects that rank best based on available information. But, in reality, it is an art rather than pure science, as it is extremely difficult to accurately model all constraints and interdependencies perfectly. Expert judgment should always prevail.

All the information that has been painstakingly prepared is now ready for the crux of PPM – decision-making by the executive team about what to invest in. As always, there are many techniques that can be used to guide people through the difficult decisions to be made; for example, voting, decision trees or the Delphi method, but ultimately the desired outcome is consensus on a portfolio of agreed projects for delivery.

Focus then shifts to the execution phase where the standard project and program management take over.

There are a range of comprehensive tools available to help with this and these do have their own benefits. For example, they can provide a level of sophistication when it comes to modeling and they also enable slick presentation to stakeholders. But often they cloud and complicate the real critical factors, particularly the
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first time around. It is possible, and sometimes even more practical, to start off with relatively simple spreadsheets and knowledge sharing tools as a cost-effective alternative.

More often than not, the first time PPM disciplines are attempted, executives aren’t able to follow the top-down approach described above. Typically, this is because the timing doesn’t fully align with the organization’s corporate planning cycle, as shown in Figure 3. Ideally, the corporate strategy would be formulated and, in parallel, the relevant initiatives defined. In reality, though, the process could start at any time of year and the stakeholders would want to see how their portfolio(s) stack up.

Where the top-down approach isn’t followed, the bottom-up or middle-out method can be followed. This usually starts with a list of current projects and then works back up to the strategy and down to the approval of projects for execution. Clearly, this results in challenges when there are a large number of projects that don’t align with the strategy. While certainly not an ideal approach, it can provide some valuable lessons. Care must, however, be taken with this approach to ensure that key stakeholders in executive management are not alienated or disillusioned, as there is the potential for them to perceive the process as a failure rather than a learning curve.

In order to ensure this exercise won’t be a one-off, but instead will be an ongoing, regular activity, a few additional considerations need to be taken into account. Firstly, a physical governance structure, based on the governance framework mentioned earlier, needs to be established. This is typically in the form of a portfolio steering committee. Where there are multiple portfolios, an overarching portfolio governance board of some form would also be required to deal with inter-portfolio dependencies and assess overall portfolio performance against the strategy of the organization as a whole (see Figures 5 and 6).

![Figure 5. Portfolio governance structure](image)

![Figure 6. The governance structure will oversee the full portfolio lifecycle](image)

<table>
<thead>
<tr>
<th>Scope</th>
<th>Overview</th>
</tr>
</thead>
<tbody>
<tr>
<td>Demand management</td>
<td>Numerous changes that don’t fit neatly into the annual strategic cycle will be requested throughout the year, so a demand management process (DMP) is required in order to deal with them in a structured way. The DMP will also help those involved to understand any changes and how they fit the strategy, estimate costs and benefits and validate all information.</td>
</tr>
<tr>
<td>Measurement and rebalancing</td>
<td>The portfolio governance board should regularly measure performance, rebalance resources and deal with portfolio level interdependencies across projects. Key questions at this stage include: what resources are needed to successfully execute the most important projects (high economic value and high strategic alignment)? Are there particular projects that require resources from better performing, but lower priority, projects? Is it time for some projects to be canceled or put on hold as priorities change?</td>
</tr>
<tr>
<td>Annual review</td>
<td>As with all processes, an annual performance review helps to identify opportunities for improvement. Have the projects achieved the management’s business goals and objectives? What improvements need to be made to the process for the next iteration</td>
</tr>
</tbody>
</table>
Making the PPM decision

If you do decide that PPM is the right approach for your organization, we believe it’s important to consider the full scope of the task in hand, including the critical dependencies previously mentioned. In addition, it is sensible to set a realistic target about the desired level of maturity at implementation – this is an evolutionary process that can be scaled up further down the line.

Ernst & Young’s approach, when working with clients, is to start by carrying out a current state maturity assessment of the company’s strategy, governance, organization and capabilities, and data and tools. We then work with key stakeholders to define the desired level of maturity and establish whether gradual steps are required. The next step is to work out what implications the chosen level of maturity will have on the scope, time and cost – after all, implementing PPM is just another project.

The decision to implement PPM is often based on whether it helps fulfil an organization’s business objectives. When done correctly, the project portfolios satisfy specific corporate goals that contribute to an organization’s overall strategy.

While it sounds enough, putting PPM into practice is a tough task. Management has to make sure that each project will clearly deliver against a strategic objective. Its next job involves clustering the initiatives into portfolios to manage them effectively and maximize efficiency. It then has to decide which ones take priority and the level of resources that should be dedicated to each.

Completing each stage is critical to achieving success: wrong moves can prove costly, but execute PPM properly and management will reap the rewards.
Common pitfalls and misconceptions

► **All about the tools**: while useful for presenting data, implementing a PPM tool alone will not help achieve the desired results or gain ever-critical stakeholder buy-in.

► **Keep it simple**: trying to start by getting into the detail of applied information economics and modern portfolio theory will only cause confusion and distract from having more valuable discussions with stakeholders around portfolio objectives.

► **One size fits all**: portfolio management is dependent on a wide range of factors, from corporate culture to financial budget cycles. This means that often it is better and more beneficial to work based on principles rather than starting from a structure implemented elsewhere.

► **Budget cycles**: corporate budgeting structures and cycles can often drive how portfolios are structured, so make sure that any links are understood and that processes are ultimately aligned.

### Critical dependencies for the success of PPM

1. Clear strategy and objectives
2. Willingness to make difficult decisions
3. Executive buy-in and commitment to the process
4. Mature project management capability including robust project estimation
5. Understanding the real resource constraints
6. Established portfolio structures
7. Defined governance framework

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**House in order: companies that have aligned PPM with their business strategy**

Within one major financial services organization, the portfolio for customer requested change operated separately, with its own delivery team and funding source, from the remaining project portfolios. The portfolio was then prioritized and frequently monitored and balanced with the relevant stakeholders. This resulted in a significant improvement in the project delivery turnaround time and led to improved customer satisfaction.

Another example involved a worldwide consumer products company that was hoping to avoid past mistakes when investing more than €1b in a global operating model. The organization had previously launched several projects, many of which failed to accomplish its respective goals. For this latest initiative, the management created structured portfolios and agreed on strategic outcomes, enabling project stakeholders to maximize resources by prioritizing certain initiatives and removing low priority or low value ones. The measures had the desired effect, with PPM helping the company to meet its strategic targets.