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ORGANIZATIONAL CONTEXT OF PROJECT PORTFOLIO MANAGEMENT

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***Abstract*—**The Standard for Portfolio Management addresses a gap in the management-by-projects field across all types of organizations (i.e., profit, nonprofit, and government)—that is, the need for a documented set of processes that represent generally recognized good practices in the discipline of portfolio management. While project management and program management have traditionally focused on ‘‘doing work right,’’ portfolio management is concerned with ‘‘doing the right work.’’

***Keywords*—**management, organization, project portfolio.

I. INTRODUCTION

THE term ‘‘portfolio’’ has been in use for some time and is used throughout many diverse organizations; therefore, the term has come to represent different meanings. It is recognized that there are many types and varieties of portfolios; for example, in the financial industry, a portfolio is a collection of investment instruments (stocks, bonds, mutual funds, commodities, etc.). This standard does not attempt to address those types of portfolios; further, there is no attempt to bridge this standard to those other kinds of portfolios. For the purpose of this standard, the focus is on ‘‘project portfolio’’ management. It will be referred to simply as ‘‘portfolio’’ management. This paper examines key terms associated with portfolio management and providesan overview of the rest of The Standard for Portfolio Management.

II. PURPOSE OF THE STANDARD FOR PORTFOLIO MANAGEMENT

The primary purpose of the standard for portfolio management is to describe generally accepted processes associated with portfolio management. This standard focuses on portfolio management as it relates to the disciplines of project and program management. Its application is intended for all types of organizations (i.e., profit, nonprofit, and government). When the term ‘‘organization’’ is used here, it applies generally to these three types of organizations. If any portion of this standard typically applies to a subset of these three types of organizations, the subset is identified.

This standard provides a foundational reference for anyone interested in portfolio management of projects and programs. This includes, but is not limited to:

1) *- Senior executives;*
2) *-Management staff in charge of organization strategy;*
3) *- Portfolio managers;*
4) *- Members of a strategic and/or portfolio management office;*
5) *- Managers of project and program managers;*
6) *- Program managers;*
7) *Project managers and other project team members;*
8) *- Members of a project or program management office;*
9) *- Customers and other stakeholders;*
10) *- Functional managers and process owners with resources in a portfolio;*
11) *- Educators teaching the management of portfolios and related subjects;*
12) *- Consultants and other specialists in project, program, and portfolio management and related fields;*
13) *-Trainers developing portfolio management educational programs;*
14) *- Researchers analyzing portfolio management.*

III. DEFINING PORTFOLIO

Defined, a portfolio is a collection of projects (temporary endeavors undertaken to create a unique product, service, or result) and/or programs (a group of related projects managed in a coordinated way to obtain benefits and control not available from managing them individually) and other work that are grouped together to facilitate the effective management of that work to meet strategic business objectives. The components of a portfolio are quantifiable; that is, they can be measured, ranked, and prioritized.

The projects or programs (hereinafter referred to as ‘‘components’’) may not necessarily be interdependent or directly related. At any given moment, the portfolio represents a view of its selected components that both reflect and affect the strategic goals of the organization—that is, the portfolio represents the organization’s set of active programs, projects, subportfolios, and other work at a specific point in time. It is important to understand the relationship of a portfolio and the components of the portfolio. Fig. 1 illustrates this relationship.

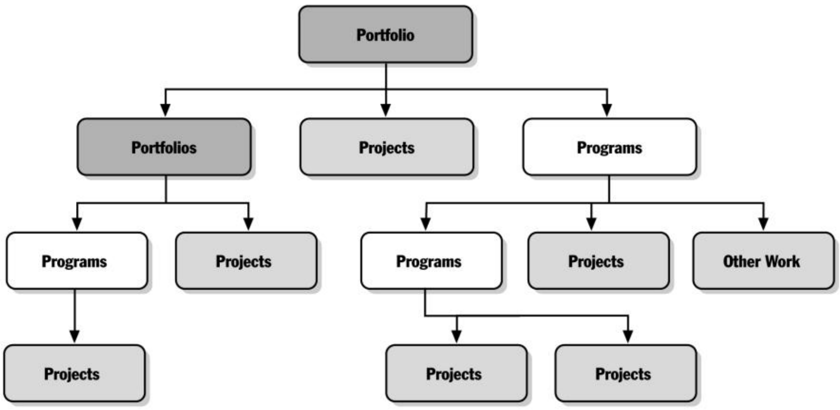

Fig. 1: Portfolio Relationships—Example

A portfolio reflects investments made or planned by an organization, which are aligned with the organization’s strategic goals and objectives. It is where priorities are identified, investment decisions are made, and resources are allocated. If a portfolio’s components are not aligned to its organizational strategy, the organization can reasonably question why the work is being undertaken. All components of a portfolio exhibit certain common features:

1) *- They represent investments made or planned by the organization*
2) *- They are aligned with the organization’s strategic goals and objectives*
3) *- They typically have some distinguishing features that permit the organization to group them for more effective management*
4) *- The components of a portfolio are quantifiable; that is, they can be measured, ranked and prioritized.*

Conversely, the components of a portfolio are differentiated as identified in TABLE 1:

TABLE 1: COMPARATIVE OVERVIEW OF PROJECT, PROGRAM, AND PORTFOLIO MANAGEMENT

PROJECT	PROGRAMS	PORTFOLIOS
Projects have a narrow scope with specific deliverables.	Programs have a wide scope that may have to change to meet the benefit expectations of the organization.	Portfolios have a business scope that changes with the strategic goals of the organization.
The project manager tries to keep change to a minimum.	Program managers have to expect change and even embrace it.	Portfolio managers continually monitor changes in the broad environment.
Success is measured by budget, on time, and products delivered to specification.	Success is measured in terms of Return On Investment (ROI), new capabilities, and benefit delivery.	Success is measured in terms of aggregate performance of portfolio components.
Leadership style focuses on task delivery and directive in order to meet the success criteria.	Leadership style focuses on managing relationships, and conflict resolution. Program manager’s need to facilitate and manage the political aspects of the stakeholder management.	Leadership style focuses on adding value to portfolio decision-making.
Project managers manage technicians, specialists, etc.	Program managers manage project managers.	Portfolio managers may manage or coordinate portfolio management staff.
Project managers are team players who motivate using their knowledge and skills.	Program managers are leaders providing vision and leadership.	Portfolio managers are leaders providing insight and synthesis.
Project managers conduct detailed planning to manage the delivery of products of the project.	Program managers create high-level plans providing guidance to projects where detailed plans are created.	Portfolio managers create and maintain necessary process and communication relative to the aggregate portfolio.
Project managers monitor and controls tasks and the work of producing the projects products.	Program managers monitor projects and ongoing work through governance structures.	Portfolio managers monitor aggregate performance and value indicators.

Portfolio management is the centralized management of one or more portfolios, which includes identifying, prioritizing, authorizing, managing, and controlling projects, programs, and other related work, to achieve specific strategic business objectives. There are many types and varieties of portfolio management. This standard does not attempt to address all types of portfolio management; instead, it focuses on ‘‘project portfolio management.’’ Since project portfolio management is the focus of this standard, it is denoted throughout this document as simply ‘‘portfolio management.’’ Portfolio management is an approach to achieving strategic goals by selecting, prioritizing, assessing, and managing projects, programs and other related work based upon their alignment and contribution to the organization’s strategies and objectives. Portfolio management combines (a) the organization’s focus of ensuring that projects selected for investment meet the portfolio strategy with (b) the project management focus of delivering projects effectively and within their planned contribution to the portfolio.

IV. The Link with Organizational Strategy

Fig. 2 shows the general relationships among the strategic and tactical processes in the organization. From the vision and mission, the organizational strategy and objectives are developed. Execution of the strategy requires the application of strategic management processes, systems, and tools to define and develop:

1) *-High-level operations planning and management*

2) *- Portfolio planning and management.*

This leads to tactical implementation of operational and project-related activities. The top of the triangle (‘‘Vision,’’ ‘‘Mission,’’ and ‘‘Organizational Strategy and Objectives’’) illustrates the components used to set the targets or goals. These components direct all further organizational actions. Please note the arrows in Fig. 1-2 provide the general context of influencing relationships among the elements. The middle of the triangle (‘‘High-level Operations Planning and Management’’ and ‘‘Project Portfolio Planning and Management’’) represents the processes that establish appropriate actions required to meet the goals. These processes interact with the bottom of the triangle, in which the contribution of all operational activities must be compared to ongoing value creation, and the contribution of all project activities must be compared to the creation of new value. ‘‘Management of On-going Operations’’ and ‘‘Management of Authorized Programs and Projects,’’ which appear at the bottom of the triangle, correspond to those components that ensure the organization’s operations and portfolios are executed effectively and efficiently.

Both the operational and project aspects of an organization must be considered in portfolio management. The operational side of the organization uses recurrent activities and operations management processes that facilitate effective high level planning and management. The project side of the organization uses program/project management processes that enable efficient project planning and implementation activities. At the tactical management level, the question is: ‘‘Is this operation or project managed efficiently with optimal results, from an optimum use of resources, with optimum effort, and complying with organizational values and standards?’’

Fig. 2: An organizational context of portfolio management

Organizations rely on projects and programs in order to achieve their strategic intent. The application of portfolio management allows this interconnection by the sharing of goals and the allocation of resources. The flow of control is as follows:

1)Strategic intent and prioritization provide direction for determining the financial resources that should be allocated to the portfolio.

2)The strategic intent is mapped onto a set of portfolio components (i.e., projects and programs), including their resource allocations. These components are managed according to the portfolio management principles outlined in this standard.

3)Each program corresponds to the delegated subset of the overall strategic intent, which it will deliver by means of the allocated resources.

4)Each project is defined by its contribution to the portfolio's strategic intent, and can then be managed according to the appropriate principles.

V. THE LINK BETWEEN PORTFOLIO MANAGEMENT AND ORGANIZATIONAL GOVERNANCE

Portfolio management is one of several governance methods used within organizations. Governance is the act of creating and using a framework to align, organize, and execute activities in a collectively coherent and intelligible manner in order to meet goals. Organizational governance establishes the limits of power, rules of conduct, and protocols of work that organizations can use effectively to advance strategic goals and objectives and to realize anticipated benefits.

Organizational governance occurs at different decision-making levels of the organization in support of specific goals and objectives. These goals and objectives are defined through the organization's strategic planning process. This process defines the means of attaining the goals through either operations (ongoing organizational activities) or temporary endeavors (projects), and also defines how they are governed. Whether managing operations or managing projects, all governance levels are linked together to ensure that each organizational action is ultimately aligned with organizational strategy. Fig. 3 illustrates this relationship:

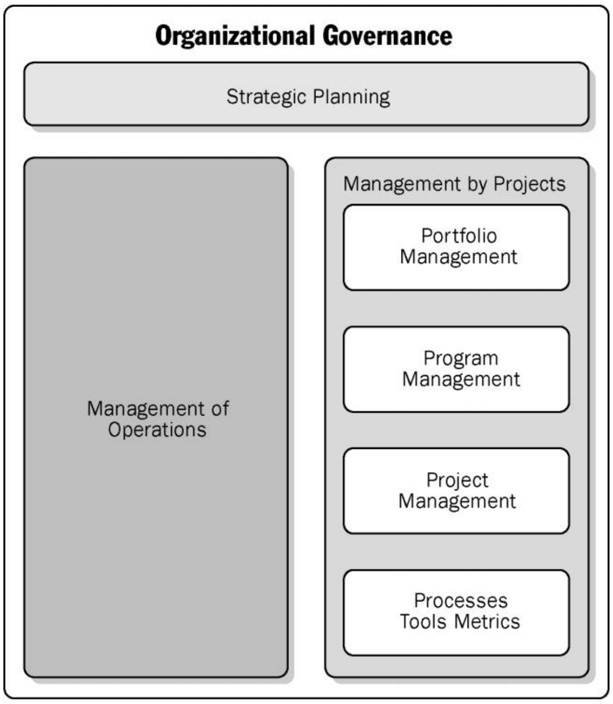

Fig. 3: Governance Context

Organizational governance involves controls—such as phase gates, meetings, metrics to monitor progress, etc.—and includes the domains of portfolio, program, and project management. The portfolio management domain of governance is the subject of this standard, and its processes are explained in Chapter 3, Portfolio Management Processes. There are many corresponding roles and responsibilities among governance entities concerning portfolio management. The areas of executive management, portfolio management, program management, project management, and operations management all play critical, interrelated roles. Such relationships are shown in Fig. 4. In smaller organizations, the roles of the executive management and portfolio management may be within the same area of responsibilities. Fig. 4 does not show all activities of the four levels, only the relationships to the different organizational activities.

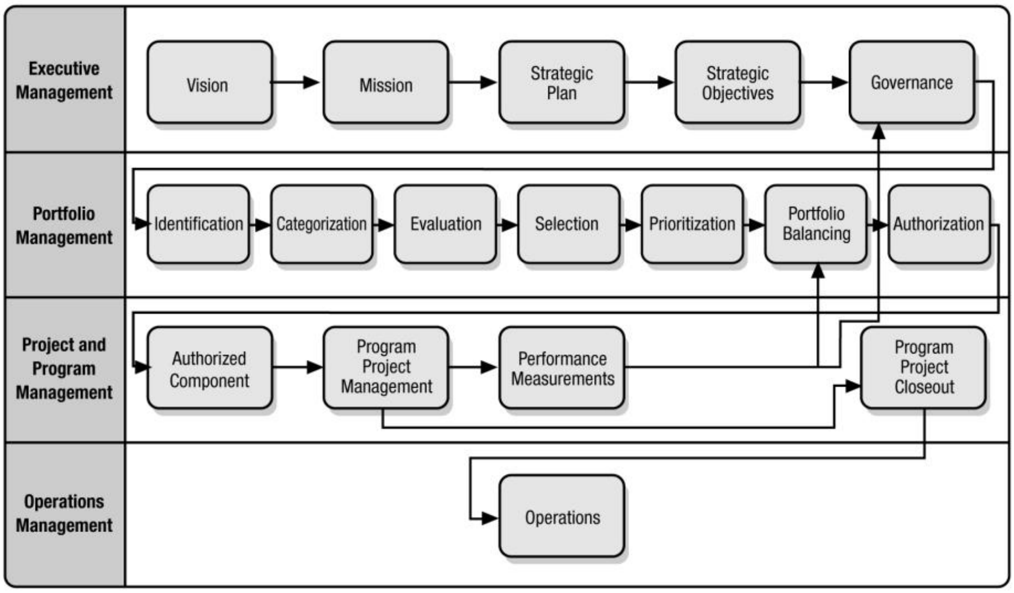

Fig. 4: Cross-Company Portfolio Management Process Relationships

VI. CONCLUSION

By looking at the portfolio of components, enterprise resource planning can identify the skills and qualifications needed for success. Skilled resources will then become available ‘‘in the pool’’ for placement into programs or projects or for related work. The function responsible for human resource management also needs to address organizational and resource impacts of major changes resulting from portfolio components. Program and project management each measure actual-to-planned schedule, effort, and budget for individual components to anticipate potential problems and to ensure corrective action is occurring, and reports this analysis to portfolio management. This information is used in portfolio reviews to determine required actions. Program and project management may work together with portfolio management to determine ‘‘go/no go’’ criteria for proposed and current components, including ‘‘termination criteria’’ (phase gates). Program and project management may work together with portfolio management in capacity planning by inputting resource requirements (e.g., human resources, financial, and physical assets).

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