

Project Governance

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PMG 424

Lecture 08



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Governance of Portfolios

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Chapter 08

Learning Outcomes

- Clarifying the logic behind developing project portfolios.
- Discussing a project portfolio as a governance structure.
- Highlighting the types of decisions made in project portfolios.
- Understanding the role of portfolio optimization strategies.
- Explaining the different measures of project portfolio performance.

The Logic of Portfolios

- A project may consist of a larger or smaller number of ongoing projects being run simultaneously.
- As these projects typically compete for a finite number of often scarce resources, they need to be governed.
- In this case, the focus is on:
 - Ensuring effectiveness by 'doing the right projects'.
 - Ensuring efficiency by 'doing projects right'.

Whereas Effectiveness Is Achieved Through Project Portfolios,
Efficiency Is Achieved Through Project Programs

What is a Project Portfolio

- The project portfolio is a grouping of projects and programs by similar skills or resource needs, prioritized by their contribution to corporate strategy and managed together to optimize contribution to strategic objectives.
- Project portfolio management is concerned with managing competing needs for scarce skills and resources of the various projects in the portfolio.

Effectiveness and Project Portfolios

- Effectiveness is achieved through selection and prioritization of projects (portfolios) that contribute most to corporate strategy.
- They create the highest value for the corporation and therefore constitute the most economic use of scarce resources.
- This need for effectiveness has led to the development of the project portfolio approach.

Decisions on Portfolios

- The board of directors makes the decision on whether and how to use programs and portfolios to implementing the project-based organizational works.
- This decision determines the framework for managers to decide on the types of projects in which the organization is going to engage.

Decisions on Portfolios

- The project-based part of the organizational works is typically governed by management decisions on:
 - whether, when and how to share resources across projects;
 - whether to pursue higher level goals which need to be accomplished through several interlinked projects;
 - or whether to focus on smaller goals accomplished by individual projects.

Possible Governance Structures

Previous Management
Decisions Lead To Four
Possible Governance
Structures For Project-
based Organizations

Resources	shared	Portfolio of projects	Hybrid organization
	Not shared	Multi-project organization	Program of projects
		unrelated	related
		Objectives	

Multi-project Organizations

- A multi-project organization is meant to maximizing the return on individual projects.
- Projects in this type of organization are very diverse and have little or nothing in common, thus there are no synergies of objectives or resource usage.
- In such projects, external resources with very specific skill sets may be used for just the duration of a contracted project.

Portfolios of Projects

- A portfolio of projects is meant to maximizing the effectiveness by using existing skill sets and contributions to strategic objectives.
- Such organizations group their projects based on availability of skill sets and prioritize their projects to maximize their strategic objectives.
- The objectives of projects in a portfolio do Not necessarily have to be related to each other; key is commonality of skill sets required.

Programs of Projects

- A programs of projects is meant to maximizing efficiency.
- Such organizations emphasize synergies stemming from combining several individual project objectives into a larger overall objective.
- In this type of organization, skill sets needed may vary significantly between the individual programs.

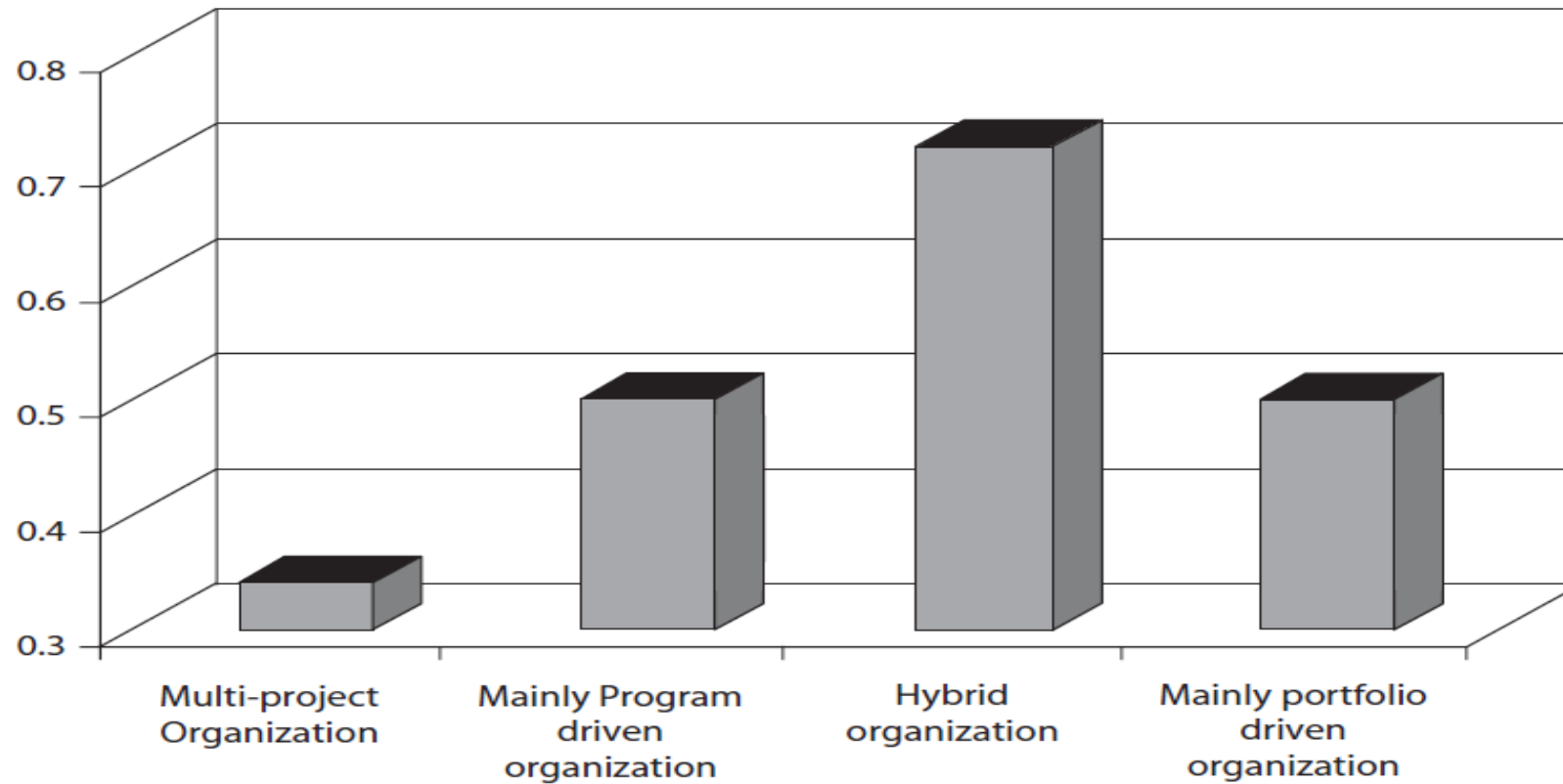
Hybrid Organizations

- A hybrid organization is meant to balancing maximization of effectiveness and efficiency through a combination of program and portfolio approaches.
- Such organizations achieve their strategic objectives by combining sharing of skill sets through portfolios and relating project objectives through programs.

Performance of Governance Structures

- Corporate performance varies greatly according to the choice of governance structure.
- The hybrid organization structure of combining and balancing programs and portfolios is statistically more successful than other three approaches.
- The multi-project approach achieves the lowest level of performance, while either the programs or portfolios achieve moderate performance.

Performance of Governance Structures



**The Hybrid Approach Balances Both Efficiency and Effectiveness When
Deciding Which Projects To Take On and Which Ones To Drop**

Why Portfolios?

- The objective of project portfolio governance is to ensure that the best projects are selected; that is, those that will achieve their strategic objectives:
 - in the shortest possible time; and
 - within the constraints of available skills and resources.

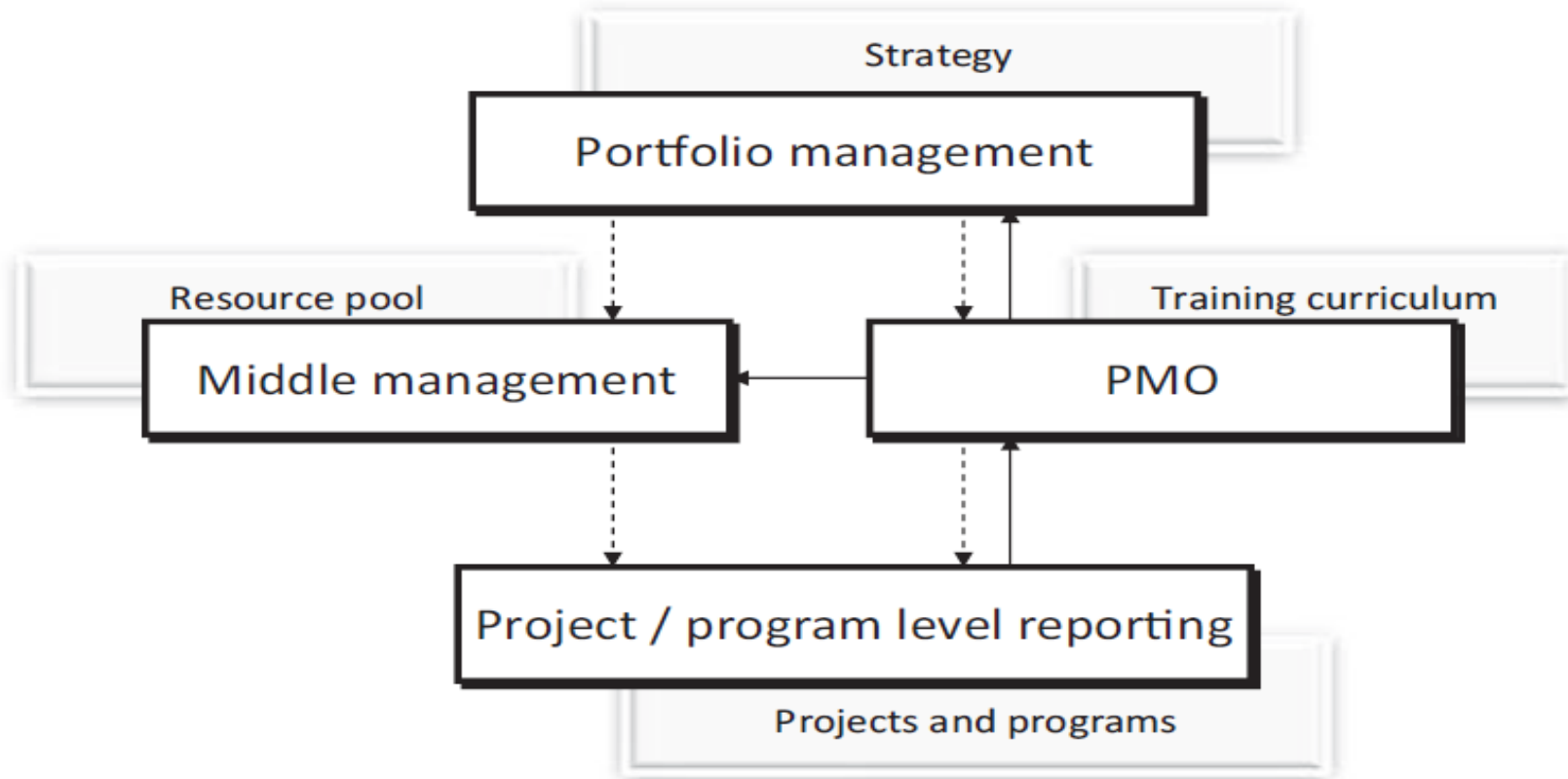
Why Portfolios?

- Projects and programs in any given portfolio are screened, selected, prioritized and scheduled based on getting the highest possible throughput of the 'best' projects for the organization.
- The term 'throughput' implies ensuring the greatest number of the best projects implemented by the organization in the shortest possible amount of time.
- The term 'best' implies that a large number of good projects might be preferable to a smaller number of excellent projects as the overall throughput will be greater.

Portfolio Management

- Effective portfolio management requires a proper communication structure that allows information to flow from portfolios to projects and back again.
- Portfolio managers often communicate portfolio decisions to line or middle management, sponsors (and steering groups).
- Tactical PMOs collect and aggregate project performance and report to the portfolio level.

Portfolio Management



Portfolio Management Objectives

- An important purpose of project portfolio governance is to achieve the objectives for each portfolio, which should be derived from the organization's strategy.
- These portfolio objectives provide the framework for decision-making within the portfolio.

Portfolio Management Objectives

- Portfolio objectives vary depending upon whether the corporation is shareholder- or stakeholder oriented.
- Achieving these objectives involves careful selection and prioritization of projects within each portfolio to ensure their alignment with its objectives.

Portfolio Optimization Strategies

- There are three most often used portfolio optimization strategies that are either used alone or in combination with each other:

1. Value Maximization.
2. Balancing.
3. Strategic Alignment.

Value Maximization Strategy

- In this strategy, projects are selected into the portfolio if they reach a certain threshold value; often financial such as Return on Investment (ROI).
- The strategy is criticized as being too numbers focused and for Not factoring in the more qualitative benefits of each project.
- Corporations that use this as a standalone strategy are seen to perform the worst in their industry.

Balancing Strategy

- Projects are selected into the portfolio based on a balanced weighted measure of several parameters (similar way to an investment fund):
- Examples are:
 - distribution of high versus low-risk projects.
 - distribution of short-term versus long-term projects.

Balancing Strategy

- The balancing matrix uses a number of two-dimensional graphs for each parameter to visualize the relative positions of projects against each other, allowing managers to select the most desirable balance of projects.
- The strategy is criticized for lack of guidance on the balancing parameters and weighting criteria.
- Corporations that use this as a standalone strategy are seen to be more successful in their industry than those who use Value Maximization as a standalone strategy.

Strategic Alignment Strategy

- This strategy assigns a budget value to each strategic objective of the corporation; it is also called the strategic bucket approach.
- When a project is considered for the portfolio, it is tested against the objectives of each bucket (that is, the strategic goal).
- If the project supports one of the buckets or goals, then it is funded out of the relevant bucket.

Strategic Alignment Strategy

- This strategy requires detailed planning, based on a long-term view anticipating future business trends.
- This strategy is often criticized for being too hypothetical (requires developing hypothesis on future trends).
- Corporations that use this as a standalone strategy are seen to be the most successful in their industry.

Choice of Strategy

- The choice of portfolio optimization strategy is related to the orientations of corporations.
- While corporations that are shareholder-oriented use the Value Maximization strategy, corporations that are stakeholder-oriented use the Balancing strategy.
- Corporations that are both shareholder- and stakeholder-oriented use the Strategic Alignment strategy, as it is contingent on the corporation's strategy.

Roles and Authorities of Portfolio Managers

- Governance of project portfolios also includes deciding on the roles, authorities and decisions on the degree to which the portfolio management process is formalized (or the portfolio manager is engaged).
- Roles and authorities assigned to the portfolio managers include:
 1. Business management roles and authorities.
 2. Portfolio decision roles and authorities.
 3. Portfolio maintenance roles and authorities.

Roles and Authorities of Portfolio Managers

- Business management roles and authorities:
 - Participation in corporate business planning.
 - Special emphasis on contributing to planning for changes in required skill sets and resources.
 - Procurement of the agreed-upon quantity and quality of skill sets.

Roles and Authorities of Portfolio Managers

- Portfolio decision roles and authorities:
 - Determination of roles.
 - Naming of individuals with the authority to identify, prioritize and select projects within the portfolio.
 - Includes responsibility and authority to start, suspend or terminate projects from within a portfolio.

Roles and Authorities of Portfolio Managers

- Portfolio maintenance roles and authorities:
 - Collection and aggregation of reports.
 - Participation in steering groups and project/program plan reviews.
 - Identification of bad projects and associated initiation of reviews, handling of issues and so on.
 - Coaching of project managers.
 - General improvement of organizational processes.

The Degree To Which the Portfolio Management Process Is Formalized
Is Influenced By the Complexity of the Decision-making Process In the
Organization

Measuring Portfolio Performance

- Portfolio performance is measured using three groups of performance variables:
 1. Achievement of desired portfolio results: these are aggregated project level measures (customer satisfaction, achieved time, cost, quality).
 2. Achievement of project/program purpose: these show how well the projects and programs have fulfilled their purpose (effectiveness of project selection).
 3. Balancing priorities: these are business level measures (resource retention, timely implementation of programs and stakeholder satisfaction).

**The Three Groups of Measures For Portfolio Performance Should
Be Assessed At Each Portfolio Reporting Cycle**

Conclusions

- The project portfolio is a grouping of projects and programs by similar skills or resource needs, aiming to contribute to a strategic objective.
- Project portfolio management is concerned with managing competing needs for scarce skills and resources of the various projects in the portfolio.

Conclusions

- Whereas efficiency is achieved through project programs, effectiveness is achieved through project portfolios.
- Effectiveness is achieved through selection and prioritization of projects (portfolios) that contribute most to corporate strategy.

Conclusions

- The board of directors makes the decision on whether and how to use programs and portfolios as an approach to implementing the project-based works.
- This decision determines the framework for managers to decide on the types of projects in which the organization is going to engage.

Conclusions

- The hybrid approach of combining and balancing programs and portfolios is statistically more successful than other three approaches.
- The multi-project approach achieves the lowest level of performance, while either the programs or portfolios achieve moderate performance.

Conclusions

- The three portfolio optimization strategies are Value Maximization, Balancing, and Strategic Alignment.
- The choice of portfolio optimization strategy is related to the orientations of corporations (shareholder or stakeholder).

Task 1

- Find an internationally successful company, and discuss how their portfolio optimization strategies and decisions have contributed to their favourable performance?

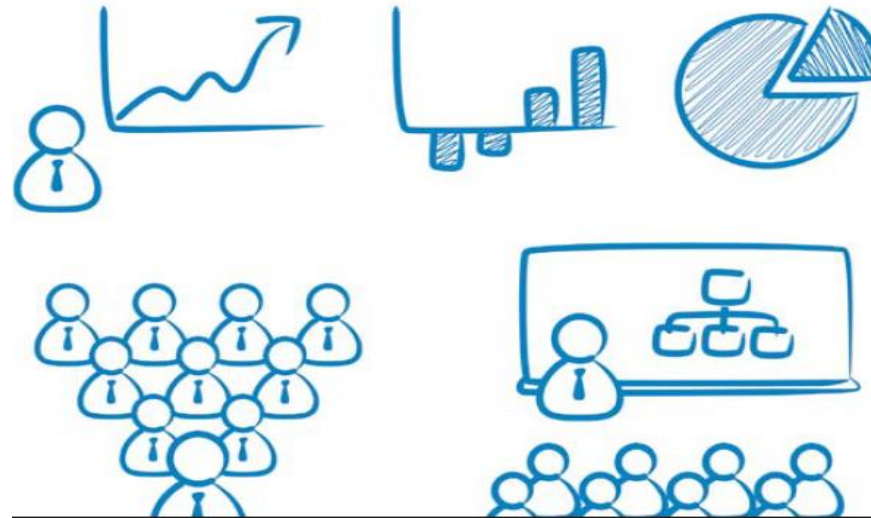
Task 2

- Find a local company in which the portfolio management process is formalized, and discuss how formalization impacted the roles and authorities of the portfolio manager?

Reference

Project Governance

Ralf Müller





Thank You