Project Management Institute
Lahore Chapter, Pakistan

PORTFOLIO MANAGEMENT

GETTING YOUR CHOICES RIGHT

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PMI National Project Management Conference

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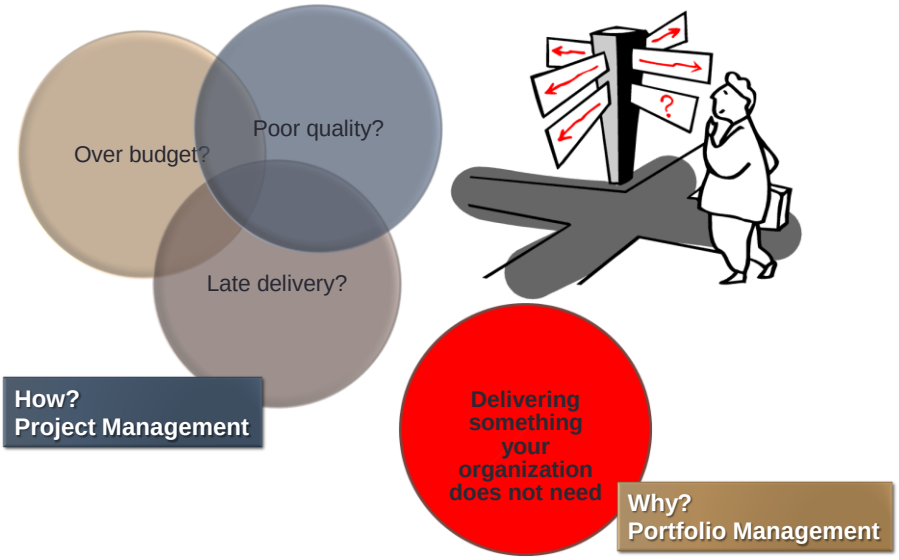
Building a Library

The How and Why of Projects



If the HOW is not done right

Project Management Failure

Loss of benefits	Electricity production from Ghazi Brotha	Rs. 145 million/day – Rs 52 billon/year **Total delay in project – 4+ Years**
Inflation	Impact of inflation on RBOD	Rs. 6.1 million/day – Rs. 2.3 billion/year **Total delay in project – Uncertain (current 5+ Years)**

If the WHY is not done right

Yamagata, Japan

Portfolio Management Failure

- Wrong Project Design, Location or Basis
- Typical examples
  - Schools at wrong locations
  - Infrastructure inconsistent with needs
  - Gross over or under design
  - Untested development hypothesis

Failing but Succeeding

Project Management Story

Envisioned 1950

- AUD 7 million – 5 Years

Actual 1966

- AUD 100 million – 16 years

Project Story

Icon for Sydney

Outstanding economic success

Dimensions of Project Success

Portfolio: Management of Choices

We want to be able to

- Select the right Program and Projects
- Align our choices with Organizational Strategy
- Respond to internal and external changes
- Operate with Transparency and Accountability

Definition: Portfolio

A portfolio is a collection of projects or programs and other work that are grouped together to facilitate effective management of that work to meet strategic business objectives. The projects or programs of the portfolio may not necessarily be interdependent or directly related (*PMBOK® Guide* – Fourth Edition). These components of a portfolio are quantifiable; that is, they can be measured, ranked, and prioritized.

A portfolio exists within an organization and it consists of a set of current components and planned or future initiatives. Therefore, portfolios are not temporary like projects or programs. An organization may have more than one portfolio, each addressing unique business areas or objectives. Proposed initiatives become part of the portfolio when they are identified, selected, and/or approved.

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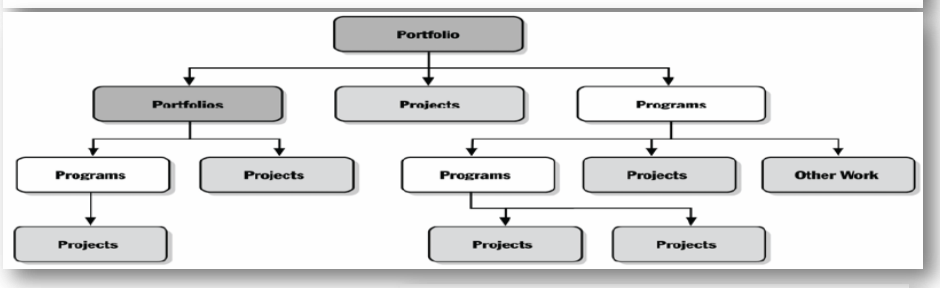
Definition: Portfolio Management

Portfolio management is the coordinated management of portfolio components to achieve specific organizational objectives. While this standard focuses on "project portfolio management," it is referred to throughout as simply "portfolio management."

Portfolio management is also an opportunity for a governing body to make decisions that control or influence the direction of a group of components (a subportfolio, program, projects, or other work) as they work to achieve specific outcomes. An organization uses the tools and techniques described in this standard to identify, select, prioritize, govern, monitor, and report the contributions of the components to, and their relative alignment with, organizational objectives. It is not concerned with managing the components. The goal of portfolio management is to ensure that the organization is "doing the right work," rather than "doing work right."



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Organizational Strategy

Organizations build strategy to define how their vision will be achieved. The vision is enabled by the mission, which directs the execution of the strategy. For the purposes of this standard, organizational strategy is a plan that describes how the company's strengths and core competencies will be used to:

- Capitalize on opportunities,
- Minimize the impact of threats,
- Respond to changes in the market, and
- Reinforce focus on critical operational activities.

This standard presumes that the organization has a strategic plan accompanied by mission and vision statements as well as strategic goals and objectives. The goal of linking portfolio management to the strategy is to balance the use of resources to maximize value in executing strategic and operational activities.

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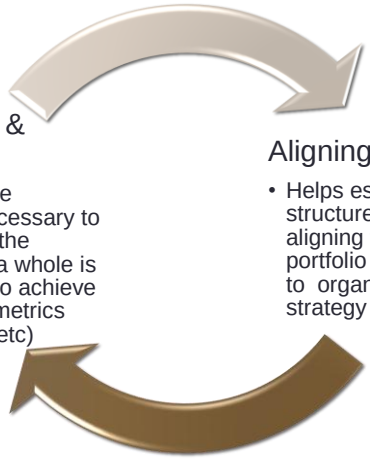
Run the Business, Change the Business

Portfolio Management Process



Monitoring & Control

- Conducts the activities necessary to ensure that the portfolio as a whole is performing to achieve predefined metrics (ROI, NPV, etc)

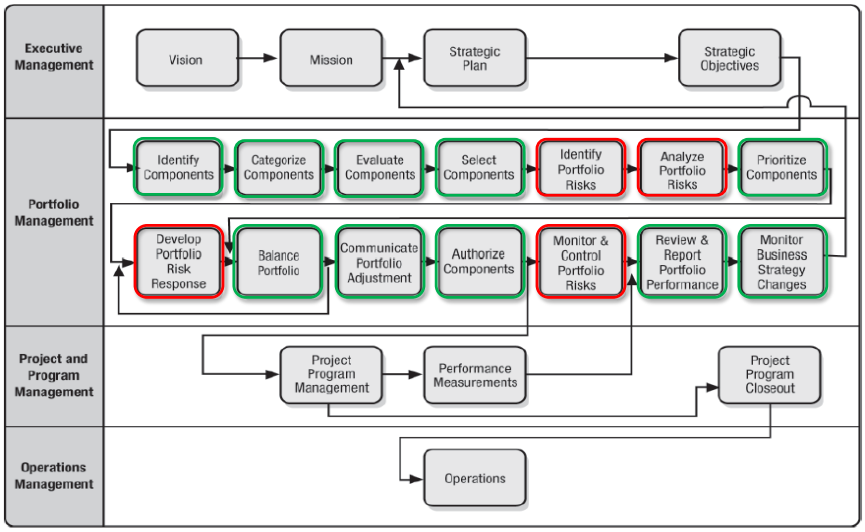
Aligning

- Helps establish a structured method for aligning the mix of portfolio components to organization's strategy

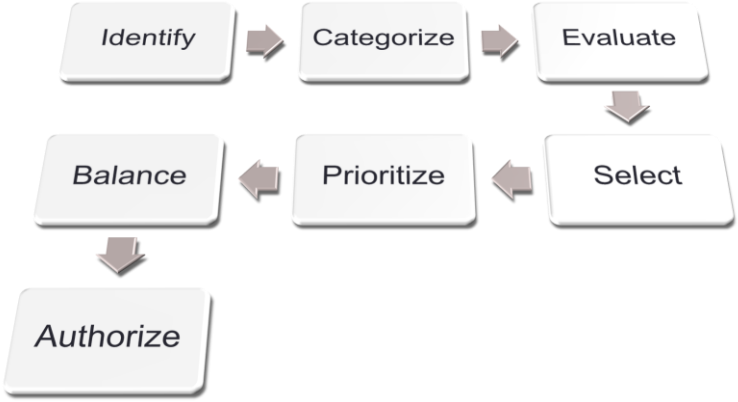
Portfolio Process Groups Mapping

Portfolio Management Process Groups		
Process Knowledge Areas	**Aligning Process Group**	**Monitoring and Controlling Process Group**
Portfolio Governance	Identify Components (4.1)	Review and Report Portfolio Performance (4.9)
	Categorize Components (4.2)	Monitor Business Strategy Changes (4.10)
	Evaluate Components (4.3)	Communicate Portfolio Adjustment (4.7)
	Select Components (4.4)	
	Prioritize Components (4.5)	
	Balance Portfolio (4.6)	
	Authorize Components (4.8)	
Portfolio Risk Management	Identify Portfolio Risks (5.1)	Monitor and Control Portfolio Risks (5.4)
	Analyze Portfolio Risks (5.2)	
	Develop Portfolio Risk Responses (5.3)	

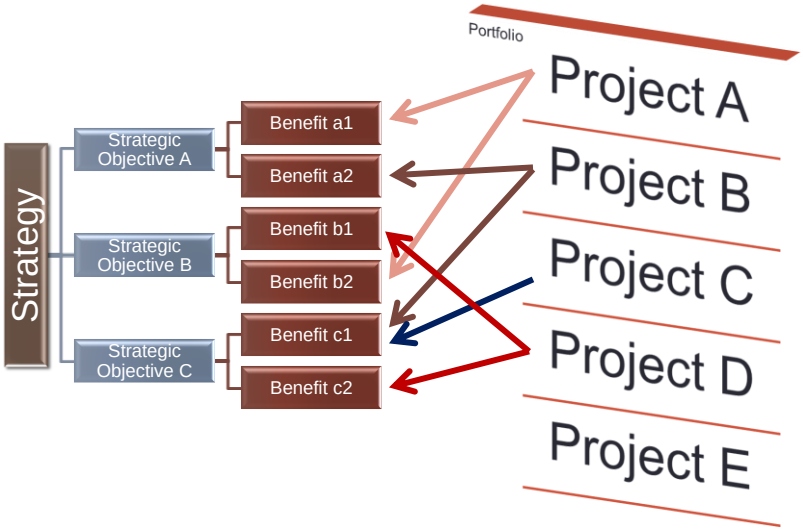
Portfolio Management in Organization



Portfolio Component Management Life Cycle



Aligning Portfolio with Strategy



Classify by Business Goals

	Operational	Strategic
Internal	Improve existing processes or systems	Develop new capabilities
External	Extend or improve products	Develop new products

Allocate resources to each group based on company's strategic goals

Business Drivers

- Expand into new markets and segments
- Improve customer satisfaction score
- Improve employees satisfaction
- Improve product quality
- Increase market share in existing markets
- Reduce expense base
- Standardize and streamline cross-functional processes

Pair vise ranking of drivers

	Increase Market Share	Expand Into New Markets	Standardize Processes	Improve Product Quality	Improve CustSat
Increase Market Share		is as important as	is more important than	is more important than	is more important than
Expand Into New Markets			is much more important than	is more important than	is more important than
Standardize Processes				is more important than	is extremely less important than
Improve Product Quality					is more important than
Improve CustSat					

- **Standardize Processes** *is more important than important than* **Improve Produce Quality**

Rank Business Drivers

Business Driver	Weight
Increase market share in existing markets	31.60%
Expand into new markets and segments	31.00%
Standardize and streamline cross-functional processes	14.50%
Improve product quality	9.80%
Improve customer satisfaction score	6.20%
Reduce expense base	3.50%
Improve employess satisfaction	3.40%

- Eigenvalue analysis used to turn pair wise matrix to weighted ranks and consistency ration

Rate alignment of Projects

	Increase market share in existing markets	Expand into new markets and segments	Standardize and streamline cross-functional processes	Improve product quality	Improve customer satisfaction score
Acquisition Target Analysis	Strong	Strong	Extreme	None	None
ERP Upgrade	Low	None	None	Low	Strong
Auditing Services Training	Low	Low	Strong	Low	None
Automated Software Installation	None	Low	Moderate	Moderate	Low
Catalog Publishing	None	Extreme	Extreme	None	None

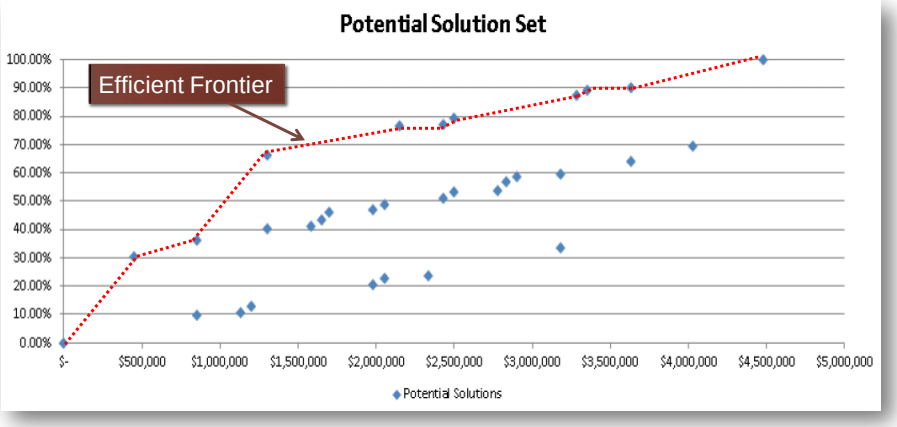
- Rate alignment of each project against the business drivers on a 5 point scale – Extreme/Strong/Moderate/Low/None

Strategic Alignment Score

	Increase Mkt Shart	Expand into New Markets	Standardize Processes	Improve Product Quality	Improve Cust Statisfaction	Score	Budget
Acquisition Target Analysis	Strong	Strong	Extreme	None	None	36.1%	850
ERP Upgrade	Low	None	None	Low	Strong	12.8%	1200
Auditing Services Training	Low	Low	Strong	Low	None	10.8%	1130
Automated Software Installation	None	Low	Moderate	Moderate	Low	9.9%	850
Catalog Publishing	None	Extreme	Extreme	None	None	30.4%	450

- Strategic Alignment score is calculated using the alignment rank and the business driver weight
- **Challenge: Get the best score for a given spending plan**

Strategic Score versus Spending



With 5 Projects – possible combinations are 2^5-1 = 31
With 20 Projects – possible combination are 2^10-1=1023

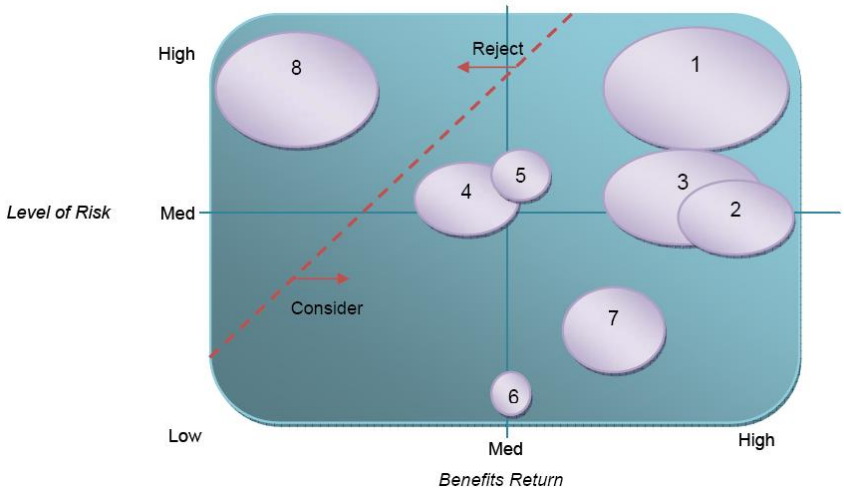
Optimized Strategic Selection

	Portfolio Selection Options			
	A	B	C	D
Acquisition Target Analysis	✗ 0	✓ 1	✓ 1	✓ 1
ERP Upgrade	✗ 0	✗ 0	✓ 1	✓ 1
Auditing Services Training	✓ 1	✓ 1	✗ 0	✗ 0
Automated Software Installation	✓ 1	✗ 0	✗ 0	✓ 1
Catalog Publishing	✓ 1	✓ 1	✓ 1	✗ 0
Total Spending	2,430	2,430	**2,500**	2,900
Strategic Score	51%	77%	**79%**	59%

Risk vs. Benefit Selection

Priority	Change Name	Budget	Benefit	Risk	Priority Score
1	Proposed Change 2	£5.1m	H	H	10
2	Proposed Change 6	£1.6m	H	M	10
3	Proposed Change 5	£4.1m	H	M	10
4	Proposed Change 1	£1.1m	M	M	7.5
5	Proposed Change 8	£550k	M	M	6
6	Proposed Change 7	£100k	M	L	5
7	Proposed Change 3	£2.1m	H	H	2
8	Proposed Change 4	£3.1m	L	H	2

Risk vs. Benefit Selection



Adaptive Dimensions : NTCP

Aaron J. Shenhar 2007

Novelty

Nature of the project's product - how new is the product

- Classification
  - Derivative project – Improve existing product
  - Platform project – New generation of existing product
  - Breakthrough project – New-to-the-world produ
- Impact
  - Can much can you depend on existing data
  - How well can you define the requirements
  - How long before you can freeze requirements
  - Which marketing techniques or strategies should you use

Technology

The level of a project's technological uncertainty

- Classification
  - Low Tech – All Existing, well established
  - Medium Tech – Limited use of new technology
  - High Tech – Many newly technologies
  - Super High Tech – Technology do not exist yet
- Impact
  - Using new technology requires more testing
  - Integration can be more complex
  - Prototyping required

Complexity

The complexity of the project

- Classification
  - Assembly – One functional unit/location
  - System – Multiple functional units/locations
  - Array – Multiple Organizations/Sponsors
- Impact
  - Communications
  - Degree of formality and bureaucracy

Pace

Degree of urgency

- Classification
  - Regular
  - Fast/Competitive
  - Time-Critical
  - Blitz
- Impact
  - Organizational structure
  - Involvement of top management

Wrap up

- What we have learned
  - ✓ Portfolio Management
  - ✓ How to align portfolio with business strategy
  - ✓ The Adaptive dimension

- Benefits
  - ✓ Governance – we can account for our choices
  - ✓ Transparency – our choices are dictated by a declared strategy
  - ✓ Efficiency – resources are not wasted

Q&A