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HIGH PRIORITY:

Managing an Enterprise Portfolio in the Digital Age

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INTRODUCTION

The importance of filtering out the noise and focusing resources on the right organizational priorities has never been higher

"*We don't have the bandwidth*."

"*Money doesn't grow on trees*."

"*You can't always get what you want. But if you try sometimes, you get what you need*."

Whether in business, the family or in the words of history's longest-running rock band, resource scarcity is a veritable certainty. People, money, equipment – even intangible concepts like attention and focus – cannot be spread to cover *everything, all the time*.

In the digital economy, the flow of information and the pace of change has increased – seemingly exponentially – every year. The importance of filtering out the noise and focusing resources on the right organizational priorities has never been higher. Increasingly, companies depend on portfolio management to help accomplish this.

Every organization has a portfolio – whether or not it acknowledges it as such.

Defining Portfolio Management

In the third edition of the Project Management Institute's (PMI) text, *The Standard for Portfolio Management*, portfolio is defined as "a component collection of programs, projects or operations managed as a group to achieve strategic objectives."

While the individual components of a portfolio are associated with one another in some way, they are not necessarily related in content or scope, as in the case of multiple releases of the same software project, for example. The link between portfolio components can be:

- Organizational (e.g., within the same group, division, or department)
- Budgetary (rolling up to the same financial profit and loss statement or budget segment)
- Strategic (supporting the same organizational goal or initiative)
- Resource-based (using the same pool of personnel and/or capital resources).

The key distinction here is that the components – programs, projects and/or operations – are managed as a group and, therefore, typically compete for many of the same resources – whether those resources are time, money, people or equipment.

Portfolio management – also known as project portfolio management, hereafter PPM – is the application of tools, techniques and processes used to effectively direct an organization's resources to the best overall advantage.

Portfolio Management Today

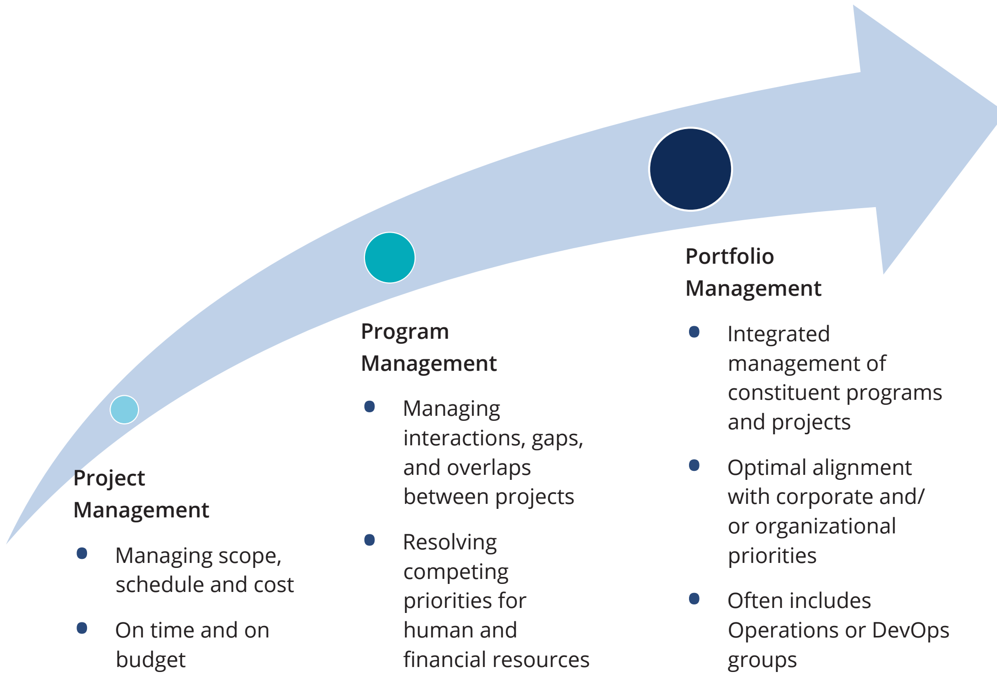
Every organization has a portfolio – whether or not it acknowledges it as such. Someone somewhere within the organization is making tradeoffs between one project and another. For example, a manager chooses between a project and operational coverage, deciding where to focus his or her department's scarce resources of time, attention and investment.

Likewise, each organization has a process for managing its portfolio of work. Unfortunately, this doesn't mean it is a well-defined, optimized or even documented portfolio management process. The work might not even truly be organized into portfolios using any rational basis. Sometimes, the process is just, as productivity consultant David Allen says, "being governed by the latest and loudest." Needless to say, this is not the most effective method.

Among organizations that have a defined PPM process and/or team, implementations can still differ significantly. PPM may be implemented at multiple levels of the enterprise in diverse ways and with differing levels of maturity, as depicted in the illustration below.

A defined, optimized and repeatable process for collecting, prioritizing, initiating and managing portfolio initiatives will provide a number of advantages.

Figure 1: Portfolio Management Maturity Model



On the “macro” level, an enterprise-wide PPM process can balance needs, resources and outcomes across multiple divisions and geographies, providing tight strategic alignment to the corporate goals and plans. Such a process may directly involve the company’s most senior leadership and include key executives from business and support units. Typically, this process is financially driven, as time, people and other resources are all translated into budgetary items and prioritized accordingly.

Driving down to a “micro” level, individual change management or governance boards can direct the implementation and prioritization of project initiatives within a smaller segment of the organization. For example, one ISG client uses its change control board (CCB) to manage the program and project work of a key outsourced supplier, appropriately vetting new proposed projects before granting resources for it to move forward, while building organizational consensus around common objectives.

While approval of new projects and changes to existing projects are an important part of this process, prioritization of projects for resources and limited release slots also is critical. In the previously described situation, resources are managed via a pool of committed hours provided for in the terms of an existing contract, but this could be accomplished just as effectively in a direct-budget model. As the IT organization moves closer to agile development, a weekly touchpoint built into that method ensures prompt response to changing priorities, needs and resource levels.

One of the most overlooked benefits of PPM is improved integration of project or program work with daily operations.

Of course, there are many possible perches in the organization for a PPM team. PPM should typically be placed in the organizational hierarchy directly below the strategy level and immediately above program/project management activities. However, this can vary from one company or organization to the next. As in the example above, the PPM process can include both internal and external resources to maximize overall return on investment for the organization.

Key Advantages of Effective Portfolio Management

A defined, optimized and repeatable process for collecting, prioritizing, initiating and managing portfolio initiatives will provide a number of advantages, including the following:

- **Improved cross-functional cooperation:** Participation in a PPM process, while sometimes contentious when competing for finite resources, can foster an improved understanding of other business units' needs, capabilities and key drivers for success. Particularly, support organizations that might ordinarily be far from the decision-making process (e.g., finance or HR) have the opportunity to play key roles in the enterprise PPM process, creating better opportunities for alignment.
- **Enhanced view of cost/benefit and value analyses:** One group's "benefit" might be another group's "cost." The overarching perspective of managing from a portfolio level can help assess the value to the entire organization, rather than looking at an overly optimistic or pessimistic view from one segment of it.
- **Informed investment decisions:** With the enhanced, portfolio-level data mentioned above, management can direct investments more appropriately. Integrating enterprise analytics powered by big data can further enhance these efforts, through providing improved insight into where to target investment.
- **Top-to-bottom integration of program and project management:** Taking a "big picture" view can help drive improvements in program and project communication and reporting as it allows the PPM group to generate, synthesize and act upon data and information more quickly.
- **Improved alignment to organizational priorities:** Tying resources to efforts that support the organization's objectives and reducing resources from those that do not is an extremely effective mechanism for ensuring alignment. This is the primary and original goal of portfolio management.

One of the most overlooked benefits of PPM is improved integration of project or program work with daily operations. Programs and projects – which, by definition, have finite beginnings and ends – are often managed separately or by a completely different organization than daily operations that require continuity. While there may be justifiable reasons for this separation (innovation versus "keeping the lights on" and "fighting fires"), most organizations would benefit from improved communication and integration between these two elements of their portfolio – especially those on the road to, or already operating in, DevOps.

The advent of advanced digital capabilities presents some additional challenges to portfolio management and portfolio managers.

For example, many traditional IT organizations have well-defined, tightly structured release management processes but drop the ball when it comes to the transition to operations. Beyond some hastily written release notes and cursory training for the help desk, there's often little recognition for the totality of the change facing users and other internal and external stakeholders. A PPM-focused organization manages operations as part of the same portfolio (again, perhaps also in a DevOps model) and often takes a broader view. This is because it factors in not only the cost of preparing the help desk to provide support on the new release, but also the support costs that might be incurred in rushing out an immature product.

Critical Success Factors

Some critical success factors for a portfolio manager or a portfolio management office (PMO) are:

1. **Alignment of programs and projects with the organizational mission and objectives:** Just as important as the initial activity is the consistent repetition of this analysis; portfolio managers must assess and correct alignment as necessary. The portfolio manager's understanding of both long- and short-term directions are critical, as is the vision and perspective gained through prior experience with the organization and its stakeholders.

2. **The ability to engage with multiple levels of management stakeholders:** As portfolio management plays a key role in operationalizing enterprise strategy, an astute portfolio manager must be able to communicate the organization's overarching goals and objectives with upper management and translate those same objectives into program and project priorities that will be understood and carried out by the "doers" at the lower project levels.

3. **Leadership, people and diplomacy skills:** Sometimes the responsibility of managing portfolio communications involves delivering the bad news of a rejected "pet" project or the removal of previously committed resources. Sometimes, this requires delivering that news up the chain of command. Consultative and communication skills are therefore critical.

4. **A data-driven approach:** A successful portfolio manager must base decisions on data and tie that data to the overall goals of the organization. Cost-versus-benefit and rate-of-return analyses provide a basis for determining the initiatives that will deliver the best overall benefit for the organization. The advent of big data and advanced analytics provide both challenge and opportunity here: more data exists to be analyzed and the enterprise has more tools at its disposal to harness it.

5. **Process orientation and rigor:** Adherence to a documented, optimized process not only improves repeatability of results but helps to defuse the organizational politics around which projects are approved and rejected. This can never be completely eliminated, but a structured approach with tangible results is more defensible than a secret vote by a mysterious committee.

Despite the rapid pace of change, proven principles for project, program and portfolio management remain in force in the digital economy.

6. **Ongoing focus on performance management metrics:** The portfolio manager must keep an accurate, impartial perspective on the performance metrics of the portfolio as a whole as well as its constituent programs, projects and operational components. An accurate measurement of program and project benefits, for example, is a key input without which the portfolio manager cannot accurately assess the ongoing viability of a project.

7. **Strong sponsors or governance board members:** While the portfolio manager must manage stakeholder involvement and interactions, higher-level management (sponsors and members of the portfolio's governance board, if so equipped) must advocate for the interests and benefits of their respective organizations, keeping in mind the good of the overall enterprise. This achieves an optimal long-range mix of programs, projects, priorities and resource allocation.

Portfolio Management in the Digital Future: Challenges and Opportunities

The advent of advanced digital capabilities presents some additional challenges to portfolio management and portfolio managers. As noted above, the pace of change continues to accelerate. Data inputs – from projects and programs, from stakeholders and from the world at large – arrive faster than ever before, increasing the difficulty of receiving and synthesizing the incoming information and processing it through the decision-making process in time for the larger organization to implement and capitalize.

Agile development increases the speed with which project information is received and the speed with which decisions must be made. This forces portfolio managers and their PMOs to be more agile in the way they manage, too.

Of course, digital technologies present opportunities for improvement as well. More frequent project status reports from agile efforts provide "early warning" systems for corrections. Improved feedback and communication mechanisms smooth the way for controlling and directing what gets done, what is done first and what gets resources.

When those decisions are made and course corrections are implemented, the optimized resource management options available to digitally enabled companies can assist in driving value faster. For example, companies leveraging robotic process automation (RPA) technology can repoint their resources to get more done on the projects selected.

Likewise, DevOps – with its tighter co-location of development and operations personnel and resources – seems custom-made to benefit from the improved project/operations integration provided by effective PPM. Business processes and structures must be adjusted and optimized to ensure they support, rather than inhibit, the frequent iteration and course corrections. Despite the rapid pace of change, proven principles for project, program and portfolio management remain in force in the digital economy. They simply must be applied more quickly and iterated more often by experienced, competent practitioners.

Given the critical nature of efficient portfolio management in the IT environment, comprehensive tools for portfolio management are surprisingly rare. Many organizations still rely on a collection of spreadsheets to capture, track, assess and prioritize their portfolio initiatives. While software solutions do exist, these solutions tend to focus on specific disciplines within PPM, rather than a comprehensive portfolio view that encompasses project, financial and HR metrics. Other companies rely on home-grown, proprietary systems due to specialization and customization needs. Again, no tool in this space is a "magic bullet" – having the right people and processes will continue to be most important.

Conclusion

> "He who defends everything, defends nothing."
>
> – Frederick the Great

From a portfolio management perspective, attempting to "defend everything" can be a fatal mistake. Resources wind up spread so thin that they end up ineffective everywhere, as every project, every department and every manager gets half of what it needs.

Proper implementation of PPM processes and tools, including organizational change management during the transition and integration with the larger organization, can provide the necessary structure and support to defend what matters.

ISG's project management services group provides tools, processes and the right people to optimize portfolio, program and project management.

ABOUT THE AUTHOR

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Jeff brings more than 20 years of program management, leadership and consulting experience to ISG clients. He currently manages the Project Management Office (PMO) for a major ISG client, supporting key technology initiatives in customer relationship management. His background in operations improvement, process optimization and global service delivery turnarounds has benefited enterprises in automotive, manufacturing, financial, transportation, and several other industries.

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