Chapter 11

Project Portfolio Management Growth and Operation: Portfolio Management Structure, Operations, Risk, and Growth

Frank R. Parth
Project Auditors LLC, USA

ABSTRACT

Developing a portfolio management system that can effectively and efficiently select and prioritize the projects that best support strategic goals, this is only the start of portfolio management. To ensure that the enterprise portfolio management system (EPMS) can continue to operate and grow as the organizational environment changes and the strategic goals change, the EPMS must be implemented within the organizational structure that ensures it will remain relevant in the future. We discuss two architectures to the administrative housing of the EPMS, within a PMO or as a separate stand-alone organization. Both have their advantages and disadvantages. In either case, once the EPMS is implemented it must be controlled and managed as any other group within the larger organization. This requires a structure, roles and responsibilities, personnel and IT resources, an annual budget, and all the other administrative functions required to manage a department. As the maturity level of the EPMS evolves the growth must be managed to continue to support the organization.

INTRODUCTION

There are two aspects to understand regarding the development of an enterprise portfolio management system (EPMS). The first is that it does not exist in isolation within the larger organization, it must fit within the organizational structure and culture of that organization.

The second is that it must evolve and change as the larger organization evolves and changes. Strategic plans no longer look 10 years into the future. The external economic, cultural, competitive, and technological environment is changing much more rapidly, and strategic plans must adapt and change at the same pace. The EPMS must be able to deal with more frequent changes in strategic goals.

It has been pointed out many times that the projects within the portfolio should be prioritized according to the strategic goals of the organization. But what happens when those goals change? While employees tend to think of strategic goals as those lofty 5 or 10 year plans that everyone is working towards, the executives realize that in this fast-paced, internationally competitive environment that companies work in they need to re-examine the strategic goals much more often than that. According to Cabanis-Brewin (Cabanis-Brewin 2000), approximately 70 - 90% of strategic goals are never achieved.

BACKGROUND

It is important to distinguish between project/program management and portfolio management. At a project level the project manager tracks which activities are ahead of schedule, on schedule, or behind schedule. Similarly the project manager tracks cost expenditures compared to the budget and monitors project risks.

At a portfolio level, the system should track which projects and programs are on/ahead of/or behind schedule. Which projects/programs have overspent their budget or are under budget. The EPMS is less concerned with individual project progress than it is with the overall progress of the entire portfolio. Consider an example. The EPMS has shown that a major internal project is 6 months behind schedule and $500,000 over budget. The earned value metrics show that at the current rate of progress the project will be a year late in delivering any revenue to the company.

From a project management perspective the team is in a damage control effort, working overtime to make up for the late schedule. However, the EPMS gives us options at a portfolio level. We can look at the schedule delay and perhaps re-allocate resources from another project to help the schedule delays. Or we may look at the revenue shortfall and see if the revenue can be made up from another project, or even whether the project should be killed altogether and the resources re-allocated to other projects. At the portfolio level we have more options than worrying about a single project.

A further consideration is that the goal of an EPMS is to select and prioritize those projects which best satisfy the organization’s strategic goals. As multiple authors have pointed out (see, for example, Anyosa 2010), most project managers in the organization are not aware of the strategic goals, and the executives who select the strategic goals are not aware of their own internal capabilities and limitations in successfully completing those projects.

ORGANIZATIONAL STRUCTURE

Effectively operating an EPMS requires a strong organizational structure. There are two basic options for developing an EPMS within the context of the overall organization. It could be a stand-alone organization or it could be within the overall structure of a Program or Portfolio Management Office (PMO).

Creating a portfolio organization is no different than creating any other brand new group within an organization, and no simpler, either. It can be extremely challenging from both a structural standpoint and from a political one to create a new group. Especially since this new group can significantly change the decision-making power within the organization and remove the ability of many managers to select their own projects.