

## Project Portfolio Management: *The Right Stuff*

*This whitepaper is the 2nd in a series on Project Portfolio Management. Last month we provided an overview of PPM ("Project Portfolio Management is not just Enterprise Project Management"). In this month's paper, we discuss the key elements of PPM and begin to introduce the results of actual implementations of PPM in large corporations. Effective PPM is maximizing the contribution of projects to the overall welfare and success of the enterprise, achieving greater alignment of projects with strategies, and improving the utilization of corporate resources.*

### Introduction

I've been talking up Project Portfolio Management (PPM) for several years, confident in my belief that this emerging process is the next big revelation in business remedies. This month, my research has brought me to a place where my convictions have been fully validated.

This "place" is both a philosophical place and a physical place. The latter was Boston, where the Institute for International Research (IIR) hosted a three-day conference on PPM. Here, we gathered a small, but enthusiastic and knowledgeable cadre of people who have actually developed and implemented PPM in their firms.

One after another, this high-level group of invited speakers presented a solid case for PPM. While most of their developing processes were in the early phases of maturity, they were already producing noticeable benefits. The firms that were represented by these speakers form a cross-section of recognized successful companies. These included: Hewlett-Packard, Dell, Dupont, Xerox, Amgen, Schlumberger, Owens Corning, Sprint Canada, Ace Hardware, Home Depot, EMC, Crompton, Vanderbilt Medical Center and Baylor University. Several other recognized firms were active participants in the lively discussions.

### Keys to Successful Project Portfolio Management

During the presentations, it became apparent that there were several common themes among the elements of the PPM processes. Some of these were elements that are found in a good Enterprise Project Management capability (as they should be). But, here, as part of a full-fledged PPM, these elements were richly enhanced and more effective.

As I review these components of a good PPM system, the value of these functions and the benefits of PPM should become evident. The functions that form the basis for a good PPM process include the following:

- ❑ Risk Evaluation, as a key element of Project Selection
- ❑ Project Termination Reviews
- ❑ Value/Benefits Evaluation, with a focus on the customer/user
- ❑ Managing the size of the project pipeline
- ❑ Establishing metrics, to support various evaluations and analyses
- ❑ Enhanced Communication, with a focus on using the language of the senior staff

## Project Termination

Oh my! I used the “T” word. This is usually verboten. Yet, the subject of project termination found its way into a majority of presented solutions, as well it should. Improved project selection practices should help to minimize the need to cancel projects in mid-stream. But there are many valid reasons to terminate a project before completion, most of which do not necessarily imply that doing the project was wrong in the first place. Here are a few examples:

- ❑ The project objectives and benefits are no longer aligned with the firm’s strategies.
- ❑ The project benefits have changed and no longer meet the desired criteria.
- ❑ Projects with a higher urgency or set of benefits have been proposed (this may result in delaying the current project, rather than outright termination).
- ❑ The project objectives cannot be met.
- ❑ The technology has changed, negating the benefits of the project as planned.
- ❑ The window of opportunity has been missed.
- ❑ Early-stage feasibility studies suggest that the project be abandoned.

Organizations that have implemented a structured project termination process have reported the following:

- ❑ Contrary to conventional wisdom, they are finding that “fewer projects” often means better financial results.
- ❑ They have established a “risk/benefit filter” to evaluate and cancel bad projects.
- ❑ Many have employed a “stage/gate” process to monitor projects. At each stage/gate, projects are evaluated against a set of criteria and are rated as “go/no-go” before advancing to the next stage.
- ❑ Canceled projects need not be considered as a total loss. Quite often there is a “salvage value” that can be applied to future projects. This salvage value should be considered in the evaluation.

There are several benefits to the firm by employing a structured termination process:

- ❑ For example; during the first 90 days of the merger between HP and Compaq, the Global Project Management Office stopped 114 projects or programs that were not aligned with the emerging strategy or made poor use of resources.
- ❑ One speaker claimed that the best performing companies averaged 40 percent early cancellation of projects, using stage-gate techniques to review value vs. risk.
- ❑ Critical resources are freed-up for higher value projects.
- ❑ Projects that are not performing well, whether due to technical, schedule, cost, or scope problems, do not continue to drain resources and dollars.

## Risk Evaluation

There is a relationship between creating value and taking risk. Nothing ventured, nothing gained. But risk must always be measured and evaluated. When risk is involved, it needs to be identified

and quantified. When anticipated risks stand in the way of anticipated value, risk mitigation options must be explored.

Risk evaluation is a continuing process. It starts during the period where the project is considered for approval. Many organizations use some type of risk/benefit grid, looking for projects that fall into the high-benefit/low-risk quadrant, and avoiding those that fall into the high-risk/low-benefit quadrant.

A key consideration, therefore, is “will the anticipated reward/revenue/benefit happen?” Does a project with an anticipated financial benefit of 100 million dollars and a probability of 90 percent accomplishment, become a better choice than a project with an anticipated financial benefit of 200 million dollars and a probability of 25 percent accomplishment? For the latter, will reducing the benefit to 180 million dollars while increasing the probability of successful accomplishment to 50 percent, justify a mitigation adjustment to the business case? It’s all about the relationship between creating value and taking risk.

It also stands to reason, then, that these factors be reviewed at each stage/gate. Has the risk changed? Have the benefits changed? As we move through a project, risks should be decreasing as further cost commitments are made.

## Value/Benefits Evaluation (with a focus on the customer/user)

What is the value of a project? What are the benefits? Well, this depends quite a bit on who the stakeholder is. For the typical project, there will be many benefactors. But, by far, the most sensitive and volatile benefactor is the customer/user. When evaluating the value of a project, the focus must be on the customer/user.

## Communication

The typical project management person will talk about the project in terms of schedule, resource utilization, costs, and scope. These are not the topics on the typical executive’s radar screen. While these items are certainly elements of project success, and are of significant importance, a successful project is just a means to an end.

When communicating to executives, you need to focus on the terms that reflect how the project is contributing to the larger set of objectives of the enterprise. How is the project contributing to growth, competitive advantage, revenue and cash flow, effective utilization of all resources, and to key strategic initiatives? Focus more on revenue and ROI than on costs. The project end date may not be as important as the window of opportunity.

For each person that you communicate with, think about how that person gets measured and views success. Then design custom communications for each, in the language that they use.

## Managing the Pipeline

We are usually pressured to undertake the maximum number of projects possible, and then some. To do so usually means stretching resources to their limit and even supplementing internal resources with temporary hires.

Several project portfolio managers and executives are reporting that when they are more selective and focus on a smaller pipeline they achieve faster project implementation, reduce resource demand, and improve revenue.

## Metrics

There is a strong consensus that good metrics are a key to a good project portfolio. While numbers don't necessarily replace good judgment, the judgment must be applied to a good set of data, comprising all aspects of project evaluation, and arranged and structured so as to support effective analysis of the criteria that is important to project selection and review.

## Reviewing the Key Elements of Project Portfolio Management

PPM requires the integration of traditional project management and traditional operations management, with the main purpose of aligning projects with enterprise strategies and optimizing the use of available resources.

The major element of PPM is project selection. Project selection comes into play when we first consider a prospective project for approval and allocation of resources. Project selection continues to be a key factor as the projects are executed. At this point it becomes project de-selection, as we monitor changing project conditions against the criteria that were used as the basis for the original selection.

Key to the process of project selection is the balance between project value and project risk. We are looking for high value (benefits) and low (or controlled) risk. Reducing risk through risk mitigation planning is an accepted method of balancing value and risk.

Employing stage-gate methods allows us to apply a go/no-go process (continue/cancel) to active projects and establishes a structured process for reviewing the value/benefits/risk parameters throughout the life cycle of the project.

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