Components of a Project Portfolio Management Process:
Part Three – Executing Project Portfolio Management

We started our coverage of Project Portfolio Management with two papers: Project Portfolio Management is not just Enterprise Project Management, and Project Portfolio Management: The Right Stuff. We continued this series with the first two papers of a three-part discussion of the contents of a Project Portfolio Management process; Selecting Projects for the Pipeline, and Managing the Pipeline. We conclude the series this month with the Execution of PPM, focusing on WHO does WHAT.

Extending the Boundaries

When you look at the process for PPM, you see a process that extends well beyond the scope of traditional project management. Consider, for example, some of these functions that are usually beyond the typical purview of project managers or the Project Management Office (PMO):

- ❑ Selecting which projects are to be undertaken
- ❑ Selecting which projects are to be terminated or deferred
- ❑ Establishing project priorities
- ❑ Projecting revenues and effect on cash flow
- ❑ Aligning projects with strategic objectives
- ❑ Evaluating the value and benefits of the project to the firm
- ❑ Making a determination as to whether there are adequate benefits from the opportunity to overcome predicted risks
- ❑ Assuring balance between various types of projects (e.g. Maintenance, Opportunity,and Competitive Edge) so as to protect and benefit the firm's future

These are primarily the purview of financial managers, strategic planners, operations executives, and other senior officers. The processes listed above may also warrant inputs and participation from the marketing, purchasing/outsourcing, and human relations departments, as well as the various functional departments.

PPM is an enterprise-wide process, involving a wide range of participants. PPM is also an extremely visible and sensitive process. How well this process is executed will have the greatest possible impact on the viability and success of the firm, for an extended time.

Level of Participation

PPM does not only have a wide breadth across the organization, requiring a wide range of participation, but it also has a large depth through the hierarchy. At the upper end, the leadership and direction must come from the very highest levels of the enterprise. Titles such as Chief Executive Office (CEO), Chief Operating Officer (COO), and Chief Financial Officer (CFO) are common. In an organization where IT is a primary business, we can expect the Chief Information Officer (CIO) to play a significant role. Certainly, the VP-Projects or Chief Projects Officer (CPO) is a key player.

Depending on the type of business, we might see participation by the Director of Manufacturing, or the Chief Chemist, or the Director of Construction. In the Pharmaceutical industry, the Director of Regulatory Affairs should be involved. The key factor here is to identify the parts of the organization that have major stakeholder responsibility and make sure that their leaders are part of the PPM leadership.

The PPM Governance Council

One of the impediments to having a PPM process is that most of the people mentioned above each have their specific territories to oversee. They typically are not motivated to focus particularly on PPM, or to have the specific skills, practices, and tools to participate fully in this important function.

So while this senior management group must carry full responsibility for PPM and approve all major decisions, the process can be centered just below this level. This would be, for lack of a better name, the PPM Governance Council. The Governance Council can consist of any of the senior positions noted above or high-level designated representatives of these officer-level people. It is the PPM Governance Council that is charged with the responsibility for the key decisions that affect the project portfolio.

The senior officers, in adopting a PPM process, must provide the overall leadership of the process. In this regard, the CEO, with the support and participation of other key officials, will announce the implementation of the PPM process. A PPM charter declaration will be issued, explaining the need for, and purpose of, the PPM process, the roles of all participants, and the makeup of the initial Governance Council. The PPM charter declaration will also spell out the specific responsibilities of the Governance Council and note when the Governance Council must elevate issues and decisions to upper management.

The PPM Governance Council will meet and communicate regularly, working with the PMO, to assure that the information needed to select projects and manage the pipeline is available and that decisions are made based on these data.

The Project Management Office (PMO)

PPM is a process that brings together the projects and the operations sides of the enterprise. The operations side, consisting of the general business departments, plus the financial, strategic, and tactical planning functions, is represented by the PPM Governance Council. The projects side is represented by the PMO.

The PMO is responsible for the oversight of all projects. This includes monitoring project accomplishments against established criteria and advising the Governance Council of status and issues that would affect the planned benefits of any project. The placement of any project in the portfolio was based on a set of expectations of the value of the project, the potential contribution of the project to the welfare of the enterprise, and the expected impact on, and use of, the firm's resources. Whenever any of these expectations are compromised, due either to poor schedule or cost performance, technical impediments, reduced technical performance, etc., the PMO will prepare a report and recommendations for consideration by the Governance Council.

The Governance Council, coordinating with the PMO, will need to re-evaluate the effect of the situation on revenues and cash flow, as well as review risk issues, project priority, and support for strategic initiatives. It is the Governance Council that then has the responsibility to decide if the affected project should be terminated, delayed, or continued under a revised set of expectations.

Integration

PPM is a way of facilitating the integration of several critical enterprise functions. Without PPM, the business of managing projects is conducted with the sense that the ultimate objective is to achieve project success. That is, if the schedule, cost, technical, scope, and quality objectives of a project have been met, then it is assumed that the project was of value. Yet, early implementers of PPM have frequently found that many projects are approved and allocated scarce resources, but don't fit very well with the strategic objectives of the firm, do not contribute (as well as other projects) to the cash flow, or do not represent the best use of resources.

The project portfolio represents part of the tactical planning that is implemented to support the strategic plan. Therefore, the Governance Council, in selecting projects for the portfolio and in managing what stays in the portfolio, is, in fact, an integral part of the strategic/tactical planning process.

The projects that comprise the project portfolio have a significant impact on the financial condition of the firm. Most projects incur costs during their execution and generate revenue (or reduce costs) upon completion (or during execution, in the case of progress payments). In doing so, projects impact the cash flow and the projection of the financial condition. Today's regulatory atmosphere demands that financial reports represent a current and true picture of the asset value of projects.

Traditionally, project reporting focuses on costs, and only costs. Therefore, the PMO will have to integrate with the financial function to update revenue and cash flow data based on project status and performance.

Decisions on the makeup of the project portfolio should take into consideration not only the projects at hand, but also prospective projects. The latter may be represented by marketing initiatives or as a result of top-down initiatives coming out of the strategic plan. Forecasting, based on data coming out of the strategic planning committee and the opportunities management system, should be integrated with the PPM process.

Executives Don't Speak the Same Language

In this new world of PPM, we are not only looking for projects that are managed well, but also for projects that are right for the firm. So we have formed a partnership between the project-oriented people in the PMO and the business-oriented people represented by the Governance Council. My experience has been that the design and implementation of a PPM capability have often been derailed by the simple situation that the two groups do not speak the same language (as well as having a different focus).

For instance, in the PMO, when you report to others about how your project is going, do you focus on schedule and costs? Do you talk about resource utilization or scope changes? Surely these are important items. As project managers we are taught to communicate these key items to management as a measure of whether the project is progressing successfully. They still are important as a gauge of project health. But they don't always reflect the full story in regard to impact on the business.

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 key strategic initiatives? Focus more on benefits, 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. One of the first tasks of the Governance Council will be to develop a set of terms and metrics that will form the basis of the communication stream that supports the PPM process.

Summary

Implementation of the PPM process will involve three groups of people. These are:

- ❑ Senior management – providing leadership and direction, and designating their representatives to the PPM Governance Council
- ❑ The members of the PPM Governance Council – who will manage the selection of projects for the portfolio and review projects for possible de-selection
- ❑ The Project Management Office – who monitors approved projects and advises the Governance Council where projects are deviating from expected benefits/value

The PPM process will cause improved integration of projects with:

- ❑ Strategic and Tactical plans
- ❑ Financial projections and reporting
- ❑ Opportunity management

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