

Delivering on Strategy

The Power of Project Portfolio Management



PROJECT PORTFOLIO MANAGEMENT: A HOLISTIC PICTURE

When *what* organizations do is not unique, *how* they do it becomes their competitive advantage. Unless you are a Tesla or SpaceX, it is essential you actively manage your portfolio of strategic initiatives through risk and investment decisions and through a sharp focus on strategy implementation to succeed. Organizations with mature project portfolio management practices complete 35 percent more of their programs successfully. They fail less often and waste less money.

Effective project portfolio management requires a keen understanding of the relationships between strategy development and strategy implementation. The selected portfolio of projects and programs must collectively advance the organization. Project portfolio management, often referred to as simply portfolio management, is forward looking. If you can't see the future of your organization by looking at your portfolio, you have no chance of getting there.

As the global advocate for project, program, and portfolio management, PMI delivers an annual thought leadership series on practices that help organizations make the critical connection between strategy development and strategy implementation. Our latest report provides insight into portfolio management approaches that are essential for the successful implementation of strategic initiatives. We thank the team that developed these reports—The Boston Consulting Group (BCG), The Economist Intelligence Unit (EIU), and Deloitte Consulting LLP.

In the series, we looked at portfolio management from the points of view of executives and those responsible for the portfolio management function in organizations. This report identifies a direct correlation between portfolio management maturity and a specific set of practices that are being used by portfolio management leaders. These practices fall into four categories, as outlined in the following pages. We found that some organizations take portfolio management seriously and some don't. Those who do are more successful.

I hope what you read here will encourage you to take another look at your organization's portfolio management capability. We appreciate your attention because it's together that we can do great things!

A handwritten signature in black ink that reads "Mark A. Langley". The signature is fluid and cursive.

Mark A. Langley
President and CEO
Project Management Institute

FOREWORD: VISIBILITY THROUGH PORTFOLIO MANAGEMENT

By Chris Garibaldi, Principal, Deloitte Consulting LLP

Clear visibility helps you know what you want to do so you can make it happen. Portfolio management provides the clarity required to solve problems. It clears confusion with trustworthy information, while providing the ability to formulate the right questions to get the right answers.

More meaningful to our conversations in this report, is that portfolio management is the method of connecting the execution of an organization's projects to the fulfillment of its strategies. Creating this connection is a critical factor in the overall success of an organization.

C-suite executives are recognizing a link between the management of individual portfolios and an organization's success in achieving its strategic goals and objectives. They can use portfolio management so that they are able to make better-informed decisions about how and where to best deploy resources. A strong portfolio management capability gives executives the power to link projects to create value for the overall organization, furthering strategic goals and building performance-sustaining capabilities that empower the organization. Portfolio management can also give senior leaders the nimbleness to stop projects that are no longer delivering value. It promotes the status of its executive practitioners to stewards of enterprise strategy with command of their organizations.

Project managers also play an important role in portfolio management, acting as the operational connective tissue. They are accountable for executing the processes necessary for successful portfolio management, and for providing accurate and unbiased information. Portfolio management can enable the project manager to reduce project failures, overruns, and redundancies—all of which are fundamental project management goals. They will have to trust that the purpose of the effort is to help the organization be more effective at managing projects and resources, and not to “punish” underperformers.

Because of the intended audience and executive visibility of portfolio management information and data, there is often a desire to overcomplicate the design of the underlying processes and enabling tools. The rule is that these processes and tools should be simple and intuitive—complementing the way an organization does business. The organization should seek to strike a balance between the academia of portfolio management and what is doable within its culture. To be minimally effective, there should be clear process guidelines for project managers to follow for the collection and reporting of data, as well as a solid governance structure for decision making. It is important to not get lost in the minutiae of portfolio management, as its true value comes from “project header-level” information (i.e., schedule, budget, forecast, actuals, and resource consumption).

Sponsors cannot forget that the biggest challenge in portfolio management endeavors is organizational adoption, so this should be top of mind for senior leadership. Whether the call for action is being pulled from the C-suite or pushed from the project, it is critical that each layer of stakeholders is involved, so that they understand how effective portfolio management can impact (ideally, in a positive way) their function. Engaging executives, project managers, resource managers, and project participants in the adoption of the portfolio management solution is necessary for realizing the potential benefits of such a transformative investment.

This important research sheds further light on these issues. It illustrates the value of the discipline in providing leaders with greater clarity and visibility into their project portfolios, enabling them to align investments with business objectives, make the right choices when prioritizing investments, and, ultimately, further develop the organization's ability to execute.

Mr. Garibaldi has 20 years of experience in business strategy and management; he develops project portfolio management solutions to help large enterprises manage their organizations through portfolio management.

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ABOUT THIS SERIES

The PMI® Thought Leadership Series provides insight into the critical success factors for delivering bold changes and the successful implementation of strategic initiatives. The 2015 series advances the conversation around the benefits of portfolio management and demonstrates the value of this discipline.

In the reports we define portfolio management as “centralized management of one or more portfolios that enable executive management to meet organizational goals and objectives through efficient decision making on portfolios, projects, programs, and operations.” It includes interrelated organizational processes by which an organization evaluates, selects, prioritizes, and allocates its internal resources to best accomplish organizational strategies consistent with its vision, mission, and values. Portfolio management is not the same as project or program management; the portfolio encompasses projects and programs and serves as the means for optimizing their value and ensuring their strategic alignment.

Expanding on PMI’s previous research, this series presents three different reports:

- *Implementing the Project Portfolio: A Vital C-Suite Focus*, the executive perspective done in collaboration with the Economist Intelligence Unit (EIU)
- *The Practitioner’s Perspective: Winning through Project Portfolio Management*, the portfolio manager perspective, done in collaboration with The Boston Consulting Group (BCG)
- *Delivering on Strategy: The Power of Portfolio Management*, a synthesis of successful organizational practices in portfolio management, done in collaboration with Deloitte

Past PMI Thought Leadership Series reports have focused on the project management office (PMO), including the capstone report, *Strategic Initiative Management: The PMO Imperative*; and on talent engagement, including the capstone report, *Talent Management: Powering Strategic Initiatives in the PMO*.

EXECUTIVE SUMMARY

An organization's current portfolio reflects priorities and investments in future growth. Effective portfolio management supports movement toward strategic goals within a competitive and rapidly changing market. The findings of our latest Thought Leadership Series reinforce the benefits of portfolio management and demonstrate the value of this discipline for maintaining alignment between an organization's investments and business strategy.

This report is a synthesis of the lessons learned from the C-suite and portfolio managers and details the leading practices of organizations that realize the benefits of portfolio management. Key findings underscore how leading organizations establish and benefit from strong portfolio management. Notably, they do the following:

Connect project execution to strategy fulfillment. A formal and disciplined portfolio management infrastructure—one that aligns projects and programs to an organization's strategic roadmap—is the way to yield better results in achieving business goals and objectives.

Seek simplicity. The less complicated the approach to portfolio management, the more likely an organization can sustain its success. The adage, "simple is better" is appropriate when managing a portfolio. Organizations that excel in this area include the pieces of information they need, not everything available.

Create a portfolio-minded culture. When portfolio management becomes part of an organization's DNA, senior leaders devote the time, education, and resources necessary to instill the practice into how everyone—from team members to executives—thinks, believes, and acts.

Develop strong capabilities. Successful organizations cultivate competencies around specific portfolio management practices and portfolio decision-making capabilities in their journey to greater maturity.

BUSINESS CASE: CONNECTING PROJECTS TO STRATEGY

Increased competition, shorter product life cycles, and continuous change accentuate the importance for organizations to deliver on strategic intent in the most efficient ways. Wasting time and money or lowering quality to achieve objectives is not an option. Effective portfolio management enables organizations to optimize resources in support of the most strategically significant projects and programs.

In 2012, our *Pulse of the Profession*® in-depth report on portfolio management looked at how portfolio management affects organizational success. The report showed that 62 percent of projects in organizations that described themselves as highly effective in portfolio management met or exceeded the expected return on investment (ROI). And despite the quantifiable benefits, relatively few organizations had perfected the practice. Only 17 percent felt their organization was highly effective in applying the principles of portfolio management.

“In today’s competitive business environment, a portfolio management process improves the linkage between corporate strategy and the selection of the ‘right’ projects for investment. It also provides focus, helping to ensure the most efficient and effective use of available resources.”

—Lou Pack, PMP
Senior Vice President
ICF International

Those results are, perhaps, surprising when you consider that the ability to effectively execute on strategy is through projects and programs, and that means managing a strong portfolio. The investment helps an organization choose the highest-priority projects and provides the oversight and resources they need to succeed.

Portfolio management requires commitment in order to provide the necessary resources. The reasons, as we see in *Implementing the Project Portfolio: A Vital C-Suite Focus*, include silos within organizations and a lack of communication and cooperation between those who formulate the strategy and those involved in executing it. *The Practitioner’s Perspective: Winning Through Project Portfolio Management* confirms that overall success in portfolio management depends more on people, processes, and cultural factors than on any specific tool or technique.

A fully aligned project, program, and portfolio management strategy encompasses the entire organization, dictating project execution at every level and aiming to deliver value at each step along the way. It does more than help organizations succeed; it allows them to deal with uncertainty to make the best and most strategic decisions.

The companies that rate the highest at portfolio management in the EIU research have several things in common: They focus on the practice as a whole and devote attention to key elements of it. They also enjoy better success than their peers in a range of areas. In addition, the BCG and PMI research confirms

that successful organizations believe portfolio management is a greater source of competitive advantage.

The ability to balance risk and opportunity across the entire portfolio is essential. Portfolio management delivers that critical edge, allowing organizations to improve delivery, and identify and drive greater value from strategic project investments.

SEEK SIMPLICITY: BEGINNING THE JOURNEY

“Everything,” Albert Einstein once said, “should be made as simple as possible, but not simpler.” Portfolio management is the same. An organization’s portfolio—its set of strategic initiatives delivered through projects and programs—determines the nature of complexity. Portfolio management helps an organization simplify and streamline work processes that would otherwise be complex. When creating a portfolio management structure, it’s important to keep it as uncomplicated as possible.

“The key with portfolio management is to create something simple and usable that grows into something streamline and mature,” said Doug Shultice, Vice President at Wells Fargo. “It has to be as complex as your business is—or, as simple as what’s required. What might be simple to one organization is complex to another.”

Wells Fargo Home Mortgage began its journey to portfolio management maturity more than a decade ago, at a time when the organization didn’t have a huge need for portfolio management, according to Shultice. “We operated in an environment of growth through increased mortgage volume and acquisitions. We would do every project that we saw—but the environment has changed significantly,” he said. “The need for portfolio management is critical now that we are in a time when the organization needs to be agile.”

Reaching portfolio management maturity is a stepwise journey. Organizations often feel they have to start from scratch on this journey, but we contend that most are already collecting some level of portfolio information—potentially without recognizing it.

Their processes may not be enabled by portfolio management software. They are, instead, facilitated by some form of business technology (see the Technology and Information sidebar below), and, more notably, by people. These portfolio managers embrace trial and error throughout their implementation—frequently starting with a complex vision in mind, but realizing simple, headline-level information is the most valuable.

Reviewing these components as a whole provides a sense of an organization’s portfolio management maturity. From here, it is a matter of identifying the capabilities that will drive the most value with minimal disruption.

The research contends that, while organizations want to be adept at portfolio management, most are not doing it well. Keeping it simple and embracing the stepwise journey could potentially help organizations mature faster—and recognize some positive benefits of portfolio management sooner than they would by seeking a complex, big-bang approach.

Technology and Information

Portfolio management technology isn’t necessarily a key success factor in making decisions. Support technology can help some leadership teams; yet, it can also be a distraction. And such technology, other than for particularly large and complex portfolios, is often not necessary and rarely sufficient in the absence of addressing the considerations discussed in this report. Information and data are what’s needed. And that information should be structured or translated into useful information for senior leaders to use in decision making and course correcting for key projects.

According to the EIU research, only 28 percent of senior leaders said that their organizations translate KPI data into information on portfolio risk; and only 34 percent translate it into ROI metrics on portfolio profitability and the delivery of objectives. **1**

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CREATE A PORTFOLIO MANAGEMENT MINDSET

A portfolio management mindset can provide strategic focus. It can help ensure that organizations are working on the right projects with the right priorities, and are not being bogged down—or stuck—on low-value initiatives.

To foster a portfolio management culture, senior leaders need to prioritize portfolio management and position it as a value-add, dedicate supporting resources, and educate leaders and peers on the practice of portfolio management.

“In our journey, we’re now changing culture—which is the hardest part,” said Shultice. “It’s now more about our business executives having the ability to make good project investment decisions—decisions not only within their line of business, but across the entire organization. That’s a whole new mindset. We’re making tough decisions where we are prioritizing our portfolio across the organization rather than in any specific line of business.”

A portfolio management mindset requires leadership to channel the entire organization to focus on the key strategic objectives and balance priorities at every level.

We see from *The Practitioner’s Perspective: Winning through Project Portfolio Management* that senior leadership support for a portfolio management culture is stronger in more mature and successful organizations. Cultivating a portfolio management mindset requires leadership to channel the entire organization to focus on the key strategic objectives and balance priorities at every level.

It also requires the right talent. Portfolio managers align projects, programs, and operations with strategic objectives, investing resources in the right work to deliver the expected value.

“My goal is to build relationships with people and groups across the organization to expand their understanding and utilization of portfolio management,” said Teresa Knudson, PMP, PgMP, Director of the Enterprise Portfolio Management

Office at Mayo Clinic. “This typically involves lots of communication, pulling the different pieces together, finding out where there were gaps, and keeping things moving.”

Ideally, the CEO sets the strategy and the portfolio manager takes this direction and drives it forward. In reality, conflicting priorities or day-to-day activities can often interfere. “To prevent this, the portfolio manager needs the executive support,” said Dr. Wanda Curlee, PMP, PgMP, PfMP, Director Portfolio and Program at Hewlett-Packard. “The role of the CEO is to articulate clearly what a company’s future is in one-year, three-year, and five-year timeframes. The portfolio manager’s role is to evaluate the portfolio to ensure it meets the strategic goals, continually reviewing the company’s landscape for newer projects and programs that may need to be a part of the portfolio.”

“Portfolio management isn’t something you ‘do,’ it’s something you are.” Andy Jordan, PMP, President, Roffensian Consulting Inc.

At DuPont, the CEO supports the importance of robust portfolio management. The CEO and the executive team set short-, medium-, and long-term strategies and communicate them to all business leaders. Portfolio managers are expected to align all existing and newly proposed programs and projects around those strategies and ensure their successful delivery by prioritizing resources—people, materials, and manufacturing capacity. DuPont then bases funding decisions on the alignment of programs and projects to the overall strategies provided.

“A strong portfolio management skill set can be invaluable to CEOs and other business leaders, as it can provide visibility and transparency into information used for business decisions and ensure that all programs and projects are strategically aligned,” said James Brown, PMP, PgMP, PfMP, Director of DuPont Pioneer’s Project Management Office.

In many ways, the portfolio manager serves as the conduit for the organization’s strategy.

STRONG CAPABILITIES LEAD TO SUCCESS

Mature organizations develop competencies around specific portfolio management practices and portfolio decision-making capabilities that help them succeed—and sustain that success.

At Siemens, one of the main goals of portfolio management is to drive reliable decisions. “Business success depends on the information collected and analyzed on the portfolio level,” said Frank Westermann, Senior Key Expert Consultant at Siemens AG, Corporate Technology. “You have to derive the right decision based on the information from your portfolio analysis for growing and also for shrinking markets.”

Westerman advises organizations to ask the following questions as they strive for business success:

- Are the strategic goals clear to everybody in your organization?
- Are the right activities performed to support your strategic goals?
- Do the decisions optimize the benefits within your limited resources?
- Do you get the right project information to make optimal portfolio decisions?
- Do the decisions at the portfolio level support the projects adequately?

If we think of portfolio management as the ability to eliminate silos, gain insight, and improve decision making by providing a consistent, timely view across all projects, big and small, then an organization needs to focus energy and resources on improving capabilities such as demand management, project and program management, and results management.

The first step in achieving business results is to determine how much organizational maturity is required to meet the targeted goal. The second is to meet with key stakeholders—from project team members to the organization’s executives—in order to assess and validate that maturity.

“To discover the portfolio maturity your organization needs, connect with leaders at the top.”

Deborah A. Dell, PMP, Manager of the Project Management Center of Excellence at IBM

C-suite executives don’t often think about how well a project is being run, or the tangible and articulated benefits of one single project. They want information at their fingertips that focuses on the entire portfolio of projects.

“If people can see what the strategy is, they can understand it, and they’ll be engaged. If they get engaged, the organization will succeed. If you don’t know why you’re doing things, you can’t improve the portfolio.”

**—Steve Butler, MBA, PMP, PfMP
Head of Delivery, Winchester,
England**

When an organization is truly mature in a given portfolio management capability, every project or program team will invest time to articulate the results. They consider those results “levers” (or enablers) for specific organizational strategic goals and objectives. If results management is built into the organization’s processes and culture then the information is readily available and executives better understand the impact of their decisions—such as budget cuts, anticipated and realized results, and project benefits.

This is further validated by the *The Practitioner’s Perspective: Winning Through Project Portfolio Management*, where we see that companies with high maturity portfolio management are far more likely to have processes in place to help link projects in the portfolio to strategic initiatives, and to assess the financial and nonfinancial impacts. Conversely, they are far less likely to make decisions based on “gut feel” or the need to mitigate financial risk. In addition, portfolio management processes create transparency during the implementation and execution phases, leading to real operational insight on the progress of key projects.

The challenge is twofold. Ensuring that senior leaders have a clear and early warning of problems and their related impacts is important, so they have sufficient time to course correct and reallocate resources. And to accomplish that, those in charge of managing the portfolio need the right resources and support

to balance the conflicting demands between portfolio components. This connection is central to portfolio management maturity.

CONCLUSION

Portfolio management goes beyond prioritization and the alignment of individual projects. Its ultimate benefit is having a systematic and thorough way to capture and distribute project investment information across the organization's strategic drivers and maximize the use of resource capacity to deliver that work. Effective portfolio management is essential to achieving the implementation of an organization's strategy and something that everyone can do well.

Portfolio management is a tangible way to operationalize strategy. It allows organizations to make the most efficient use of resources and understand the benefits of each of their investments. It helps ensure credibility and increased accountability to stakeholders, and enhances the ability to make timely and strategic cuts when needed.

To capture this advantage, consider the following:

- Successful portfolio management requires buy-in and engagement from the highest level of executives, as well as project and portfolio management practitioners. This push-pull relationship addresses the importance of portfolio management throughout an organization's culture.
- A common vision and language enables an organization to connect strategy with execution, leading to higher levels of strategic success.
- Portfolio management enables faster decision making by presenting the most critical information in the simplest way possible, benefiting executives whose time is valuable.
- Portfolio-level data and information are essential for allocating resources to the most strategic projects and for determining when to deprioritize or stop other projects.

Portfolio management is the crucial link—or glue—between strategic intent and the initiatives that deliver strategy.

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