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Project Portfolio Management – The Art of Saying "No"

Part 4 of 6: Keeping Your Portfolio Balanced

By Jeff Oltmann

Construction Job

Effective project organizations say "no," declining to do some worthy projects so they can focus their limited resources on a portfolio that contains only the best projects. The three previous articles in this series examined the first steps of constructing such a portfolio.

- Identify strategic drivers of the portfolio.
- Agree on valuation criteria that can differentiate between proposed projects.
- Research the costs and benefits of candidate projects.
- Construct a tentative portfolio of projects, then maximize its value.

At this point, the portfolio team has constructed a portfolio that is theoretically maximized in the face of resource constraints. However, it may be out of balance or not feasible for project teams to actually carry out. Solving those problems is the topic of this article.

As a quick review, the portfolio management process has five steps.

1. Clarify business objectives so the portfolio will align with the business's strategy.
2. Capture ideas and requests for projects. This includes enough research to be able to make a rough forecast of probable costs and benefits.
3. Select the best projects out of the pool of candidates by using valuation criteria to differentiate the best from the merely "good enough."
4. Validate that the resulting portfolio is feasible, then initiate or continue the selected projects.
5. Monitor the portfolio as the program and project management system executes the projects.

Balancing Act

A maximized portfolio may be out of balance in important ways. For example, it may have an inappropriate risk profile, subjecting the organization to either too much or too little risk. According to Cooper, balance is the second weakest element in portfolio construction, after "too many projects." (Cooper 2001, p 73)

Use balance displays to check the balance of a tentative portfolio across important dimensions. Exhibit 7 shows a bubble chart that displays risk versus reward in a small portfolio, where each bubble represents a project.

Some popular balance displays are:

- Risk vs. reward
- Strategy – tactical range
- Market or product line segmentation
- Distribution of times to completion or times to realize first profit

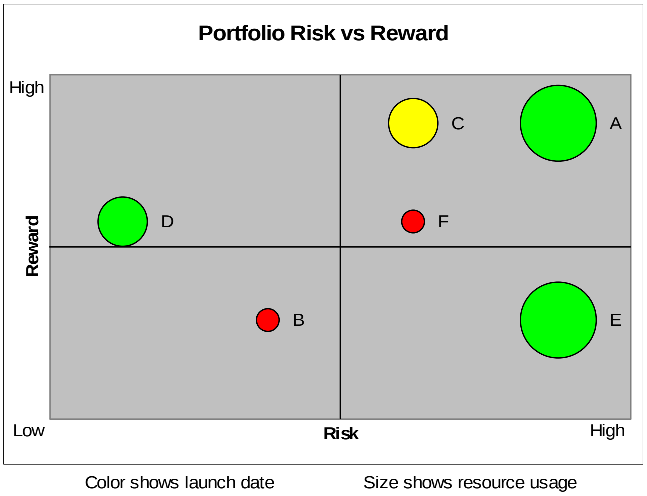

Exhibit 7: Balance Display Compares Portfolio Risk and Reward

Validate

To keep the amount of data manageable, a portfolio is initially constructed at high level of abstraction. The resulting portfolio ignores some important constraints and details about its projects. For example, a portfolio's demand for resources often appears feasible when analyzed at the FTE (full time equivalents) level. However, this masks bottlenecks caused by limited availability of certain skill sets. For example, exhibit 8 reveals that a certain skill set required by a portfolio is overloaded. (Each element in the stacked bar represents the resource demand from a specific project or program.

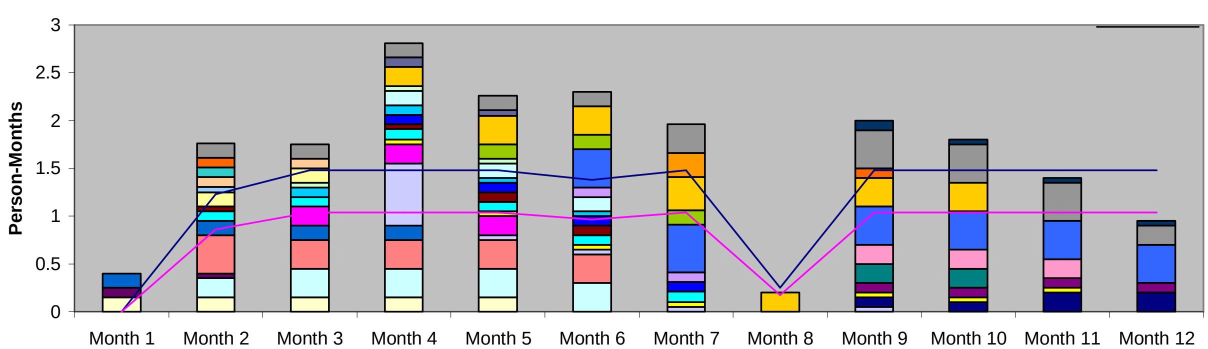

Exhibit 8: Availability of a Specific Skill Set Causes a Bottleneck in Portfolio

The blue and red lines that are roughly horizontal show the organization's total supply for that skill set.) Thus, a tentative portfolio may be infeasible to execute even though it is maximized and balanced. Fixing these infeasibilities is an iterative activity requiring the business judgment of the portfolio management team and resource managers.

Initiate

Before starting execution, validate that a tentative portfolio appears to be feasible. Team up with the people who will run the projects, and thus know them best – generally line and project managers, perhaps coordinated by the project management office (PMO).

Consider these things when looking at portfolio feasibility:
- Inter-project dependencies
- Knowledge and capabilities of the performing organizations
- Time-phased resource demand and availability, including considerations of key skill sets
- Budgetary constraints

Portfolio management is not about running projects. Managing the day-to-day execution of the projects in the portfolio is the domain of program and project management, which excel at that tactical challenge. Therefore, ensure a good handoff at this point, and of course, insist on excellent project management practices so the projects in the portfolio are successful.

Endpoint

By this point, the portfolio management team has accomplished much.

- Distinguished the best candidate projects from the rest
- Constructed a balanced portfolio that can deliver high value while using resources efficiently
- Validated that the portfolio is feasible
- Initiated the projects

However, their job is not done. They must monitor the portfolio, manage changes and tradeoffs across projects, and ensure that a governance framework clearly establishes responsibilities. The next article will address those issues.

Cooper, R., Edgett, S., Kleinschmidt, E. (2001) *Portfolio Management for New Products, 2nd edition.* Cambridge, MA: Perseus Publishing.

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