PMWorldToday
Published in PM World Today – June 2009 (Vol XI, Issue VI)

PM WORLD TODAY – June 2009

Project Portfolio Management – The Art of Saying "No"

Part 2 of 6: First, Know Where You Want to Go

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Why Portfolio Management?

Can your organization say "no"? Effective project organizations focus their limited resources on the best projects, declining to do projects that are good but not good enough. They use a discipline called project portfolio management (PPM) to make and implement these tough project selection decisions. Part 1 of this series reviewed the benefits and process of PPM. This article is part 2, and will explore the first step of the PPM process, *clarify business objectives*. Future articles will examine the subsequent steps.

Exhibit 1 shows the five-part PPM process. This process identifies the most important differentiators between projects, for example ROI, risk, efficiency, or strategic alignment. Then it uses these differentiators to select the highest impact projects, clear out the clutter, and set priorities. Tradeoffs are made in a disciplined way, rather than allowing the loudest voice to win.

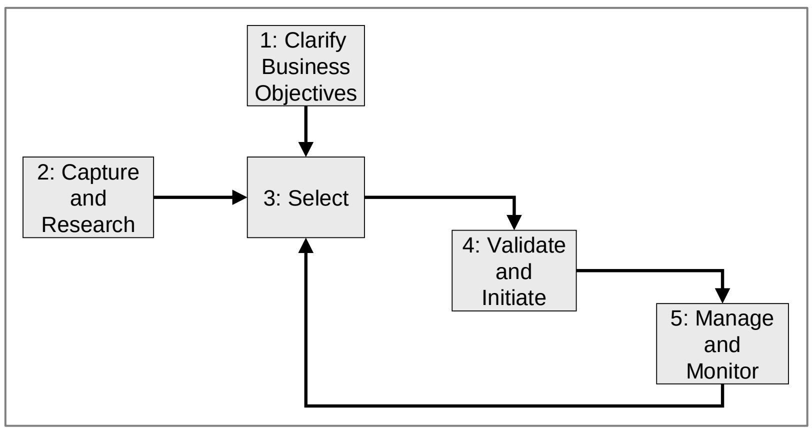

Exhibit 1: Portfolio Management Process Follows Five Steps

First, Aim the in the Right Direction

Before selecting the right projects from a pool of candidates, you must know where you want to go! As Alice in Wonderland discussed with the Cheshire Cat,

> Would you tell me, please, which way I ought to walk from here?
> That depends a good deal on where you want to get to, said the Cat.
> I don't much care where -, said Alice.
> Then it doesn't matter which way you walk, said the Cat. [1]

Similarly, you must be able to state clearly your organization's strategic objectives before starting portfolio management. This is often the first obstacle people run into when trying to implement PPM. If you can't determine the strategic objectives, stop working on portfolio management and fix that problem first.

As an example, a very popular framework for strategic planning is the strategy map, based on the strategic perspectives developed by Kaplan and Norton. A strategy map links strategic initiatives in a cause and effect hierarchy so that they support each other. [2] The top level of the hierarchy is financial objectives, since creating financial returns for shareholders and owners is a priority at for-profit companies. The supporting levels of the hierarchy are:

- Customer value: what value can the company create for the customer that will translate into financial results?
- Processes: what internal processes will generate that customer value?
- Learning and growth: What capabilities and internal learning must the company have to make the processes work effectively?

The resulting strategic initiatives define where your organization wants to go.

Decide What Value Means

Portfolio management requires a systematic method of differentiating between candidate projects to determine which ones are "best." What does "best" mean? The definition is unique to every organization. For example, one company might value environmental stewardship most highly, while another places top priority on ROI. Select a critical few criteria that will measure each project's true value to your unique organization. Ensure that these criteria support the strategic objectives discussed in the previous section. Rigorously limit the number of criteria to four to ten to keep the amount of data manageable.

The right criteria are critical, because poor criteria will lead you to select the wrong projects. There are two primary approaches to defining valuation criteria: financial and scoring. Exhibit 2 shows examples of both types of criteria.

Financial
- Payback period
- Net present value (NPV)
- Bang for Buck (BBI)

Scoring
- Market attractiveness
- Alignment to strategy
- Product and competitive advantage
- Technical feasibility
- Leverage of core competencies

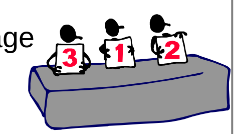

Exhibit 2: Valuation Criteria Divide into Two Approaches

The financial approach to valuation uses quantitative monetary measures, such as net present value, to define the differences between projects. Unfortunately, a financial approach may mislead portfolio managers to mistake precision for accuracy. Robert Cooper says, "In spite of the fact that financial methods are theoretically correct, the most rigorous of all methods, and the most popular of all tools, of all the methods we studied in a large sample survey of practices versus results, they yielded the poorest results on just about every portfolio performance metric. … The sophistication of these methods far exceeds the quality of the data!" [3]

Valuation by scoring takes a different approach. In many fields, researchers understand which characteristics of projects correlate with eventual business success. Scoring uses these predicting factors as the criteria for differentiating between candidate projects. For example, Cooper lists three factors in new product development that correlate well with eventual product success: [4]

- Unique, differentiated product that offers superior value to customers
- Product is targeted at an attractive market
- Product and project leverages internal company strengths

Regardless of theoretical superiority, use a valuation method that fits with the executive decision-making style in your organization. Some companies are more comfortable with financial analysis, while others prefer scoring because it brings a good framework for voting and discussion. Yet others combine financial and scoring criteria into a single system. Most of my clients prefer at least some scoring criteria in their evaluation process. Using either approach is better than having no structured evaluation criteria at all!

Endpoint

The first step of the project portfolio management process is to aim the portfolio in the right direction. Clarify strategic business objectives using a proven strategic planning approach, such as strategy mapping. Then agree on a critical few criteria that the organization will consistently use to evaluate projects for inclusion in the portfolio. This helps ensure that the projects in the portfolio align with strategy. With this foundation, you can move on identifying candidate projects for possible inclusion in the portfolio. That is the topic of the next article.

This article is part two of a six part series on project portfolio management. Here is a roadmap to the entire series, including upcoming articles.

1) Why use portfolio management?
2) Aligning to strategic objectives
3) Identifying candidate projects for the portfolio
4) Selecting projects, maximizing value, and balancing the portfolio
5) Doing an "implementability check"
6) Portfolio governance and implementation tips

upcoming

[1] Carroll, L, Alice's Adventures in Wonderland, p. 89. New York, NY: The Macmillan Company, 1920.
[2] Kaplan, S., & Norton, D., The Balanced Scorecard, p. 149, Boston, MA: Harvard Business School Press, 1996.
[3] Cooper, R., Edgett, S., Kleinschmidt, E., Portfolio Management for New Products, 2nd edition, p. 46, Cambridge, MA: Perseus Publishing, 2001.
4 Ibid., p. 47.

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