# Project Portfolio Management

## *An Organisational Capability for Changing Your Trajectory*

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**If an organisation is serious about changing its trajectory, to one that takes it to its target – as opposed to its default – future, then it needs to execute a portfolio of change initiatives. These initiatives – whether they are programmes, projects or operational changes – need to be selected, prioritised, scheduled, reshaped, rescheduled and culled as the journey unfolds and the context changes. The organisational capability for doing this is project portfolio management. While project portfolio management is something all organisations understand at a conceptual level, few have actually mastered its application. Why is this? In this article Peter Boggis and David Trafford offer seven reasons why it remains a challenge for most organisations, and why project portfolio management needs to be developed as an organisational capability.**

All organisations are on a trajectory, a path that's taking them to a future. For some this will be their default future, which is the place they will end up if they take no action other than that currently planned. Other organisations will be aiming for a different future, one that is considered a more attractive place to be. But changing an organisation's trajectory is not easy, with research showing that most strategies and transformation programmes fail to deliver their intended outcomes. Some figures suggest that the true


success rate is less than 5%. If this figure is true, and even if it was 10 times greater, it is not what it should be. So, what can be done to increase the chances of success? While there is no easy answer, it's worth noting that changing an organisation's trajectory – to one that leads to a better future – essentially involves three challenges. Firstly, deciding what future to aim for or, to put it another way, deciding on your strategic intent. Secondly, deciding the actions needed to change the current trajectory and translating them into a coherent set of change initiatives. And thirdly, managing the delivery of the change initiatives – usually in the form of programmes, projects and operational changes over time. If programme and project management is a tool for managing the delivery of the change initiatives, what's the tool for managing the collection of change programmes and projects? In our view it's portfolio management.

### What is project portfolio management?

The Project Management Institute defines portfolio management as the 'centralised management of one or more portfolios that enable executive management to meet organisational goals and objectives through efficient decision-making on Portfolio, Programme, Project and Operational choices'. Furthermore, they argue that 'organisations with good Portfolio Management practices and disciplines regularly out-perform those that don't'. But what does 'out-perform' mean in this context? Is it that they are commercially more successful, that they deliver their programmes and projects on time and to budget, or do they get a better return on their investments? Or is it some combination of these things?

In our view, portfolio management is the process of managing the initiatives – essentially investments – aimed at changing an organisation's current trajectory to one that's aligned with its strategic intent. It's about making informed choices on what to do and when; it's about stopping initiatives that are no longer having the desired impact; it's about reshaping existing initiatives to have more impact; it's about instigating new initiatives as the context changes and making the mid-course corrections that are inevitably needed. In essence it is a control mechanism for the executive team to monitor and direct their investments aimed at changing their organisation's trajectory.

### Why is project portfolio management important?

It's important for two reasons. First, most organisations have more ideas on what they would like to do to improve their future than they have resources – financial, people, capability and capacity – available. As a result, change investments – and that's what they are – need to be selected (and rejected), prioritised, scheduled, and indeed culled, as the organisation travels along its target trajectory. Without effective portfolio management there are likely to be too many change initiatives (programmes and projects) calling on the same resources to deliver multiple – often conflicting – strategic intents.

Second, achieving alignment across the organisation. Over the past 40 years, organisations have not only become larger, they've also become increasingly complex. Complexity is a result of the number of components in a system and their degree of interaction. The greater the number of components – divisions, business units, departments, distribution channels, territories, customer segments, regulators, suppliers and partners – the greater the organisational complexity. The natural entropy of an organisation is towards greater complexity – often as a result of incremental changes to meet evolving customer needs and optimise local performance. But also as a result of organisational design that places emphasis on the hierarchical decomposition of the organisation into 'manageable' units. The logic being that if the organisation is broken down into 'manageable units', each led by a manager who is accountable for the performance of their unit, the greater the performance of the organisation as a whole. This is true to a degree, but the risk is that the organisation ends up pulling itself in different directions, is not aligned in its actions and wastes resources on initiatives that are not aimed at changing the organisation's trajectory. Very rarely is the strategy for the organisation as a whole the sum of the individual business unit strategies. Or, to put it another way, the initiatives aimed at changing the individual business unit trajectories are rarely aligned to those needed to change the trajectory of the organisation as a whole.

### Why does project portfolio management remain a challenge for most organisations?

Over the years, we have found that project portfolio management is something all organisations understand at a conceptual level, but few have actually mastered its application. Why is this? The seven most common reasons we have observed are:

**Seven reasons why organisations continue to find project portfolio management a challenge**

1. Too much focus on the 'mechanics' and use of software tools.
2. Delegating accountability to the Portfolio Management Office.
3. Looking for the answer in the decision criteria.
4. Lack of clarity of strategic intent.
5. Organisational silos.
6. Expecting too much of the IT function.
7. Lack of collective leadership.

#### *1. Too much focus on the 'mechanics' and use of software tools*

While process is important, sometimes the resulting procedures, templates and software tools become the end in themselves, rather than a means to an end. Yes, there needs to be a consistent way of defining a project, and for this to be captured in a software tool that enables others to view and evaluate, but this alone will not result in a balanced portfolio. Creating a balanced portfolio that matches need with resources; risk with reward; and the number of projects with the organisation ability to absorb the change, is a significant challenge that requires thought and careful planning. Portfolios that are balanced and aligned with the organisation's strategic intent can only result from constructive dialogue across the executive team – often involving difficult conversations and painful choices – rather than the outcome of a 'mechanical' process.

### *2. Delegating accountability to the Portfolio Management Office*
Creating a project (and programme) management office (PMO), and appointing a director of portfolio management does not mean that executives can abrogate their accountability. Yes the PMO can introduce standard templates, facilitate the process, establish discipline and provide insight into the impact that the current portfolio will have on changing the organisation's trajectory. While it has accountability for maintaining the portfolio, it does NOT have decision rights on the contents of the portfolio – this rests with the organisation's leadership.

### *3. Looking for the answer in the decision criteria*
It's all too wrongly assumed that if the criteria for deciding which projects make it into the portfolio was clearly defined, the rest would be easy. Surely if x percent was on mandatory/regulatory projects, y percent on operational improvements, z percent on strategic, of which a third was of 'digital' initiatives the PMO should be able to come up with a portfolio that would be acceptable to all? As previously argued deciding what projects (which are actually investments) go into the portfolio, and which are removed, is about making informed choices, not executing an algorithm. Yes, data is required, but its purpose is to inform, not decide – that is the role and accountability of the leadership team.

### *4. Lack of clarity of strategic intent*
Having said the answer is not in having a set of criteria, there is an overarching criterion that needs to be very clear – and that is the strategic intent of the organisation. After all, the whole purpose of the portfolio is to decide and manage the change investments aimed at redirecting the organisation's current trajectory, and putting it on a path that's aligned with its strategic intent. Without clarity of strategic intent the best that could be achieved is a portfolio of initiatives aimed at improving what's currently in place. In effect ensuring that the organisation continues on its current trajectory of strategic reality – albeit more efficiently.

### *5. Organisational silos*
As previously discussed, most organisations are hierarchically decomposed into business units and functions that pursue their own individual strategies. As a result, there is little 'horizontal' integration across the organisation – few enterprise-wide synergies – and no 'collective' strategy. Without a collective strategy an organisation will pull itself in multiple directions – and in doing so have very little chance of successfully changing its trajectory.

### *6. Expecting too much of the IT function*
While the IT function may have greatest need for clarity of the portfolio – simply because most change initiatives involve changes to IT systems to a lesser or greater degree – they should not be either seen, or asked, to manage the portfolio. Admittedly, they are in a unique position to view the organisation as a whole but their role is to build digitally-enabled propositions not develop business strategy – which is represented by the portfolio. Furthermore, the portfolio is in effect the IT function's 'order book' against which it is expected to deliver.

### *7. Lack of collective leadership*
If the purpose of portfolio management is to manage the initiatives aimed at changing the trajectory of an organisation, and changing trajectory requires people to change what they do and how they do it; it's unreasonable to expect them to commit to these changes unless they're confident they will succeed, and that the benefits of the future state are worth the pain of transition. And the principal source of this confidence comes – or doesn't – from the organisation's leadership.

However, if the leadership team is not aligned, either on the strategic intent or the trajectory by which it will be realised, that confidence will be lacking. And it's not just what leaders say that instils confidence; it's what they do and how they behave. If they collectively act as one, use the same language and exercise judgement based upon the same criteria, then it will be evident they are aligned and exercising collective leadership as opposed to individual leadership. Changing trajectory requires everyone – starting with the leadership group – to pull in the same direction. To put it another way, if the priorities and resultant actions of leaders are not in line with those of the project portfolio, the integrity of the portfolio will be undermined and become ineffective.

### Project portfolio management is an organisational capability

So, what distinguishes organisations that are good at project portfolio management from those that are not? Our view is that they have developed portfolio management as an organisational capability. Organisational capabilities are the 'muscles' of the organisation that get stronger the more they are exercised. Also, the more embedded they become, the greater their impact on organisational culture. They are formed from a combination of shared mental models and frameworks, common language, beliefs and mindset, processes and practices, conventions and norms, shared experiences and individual skills developed over time. Significantly, as they become embedded within an organisation, they are not lost when key individuals leave.

### Final thought

The ability to deliver projects successfully is important as, individually and collectively, they change the trajectory of the organisation to one that is aligned to its target future. While this capability is necessary it is not sufficient as the collection of projects need managing. They need managing in the sense that they need selecting, prioritising, scheduling, rescheduling and culling as the context changes. The difference between a collection of projects and a portfolio of projects is that they are actively managed using the principles, techniques and practices of portfolio management.

We welcome your thoughts.

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