

Portfolio Management



A portfolio is a collection of projects and/or programs and other work that is grouped together to facilitate the effective selection and management of that work to meet strategic business objectives. The projects or programs of the portfolio may be mutually independent or directly related. An organisation may manage its projects and programs through a structure of several portfolios or in a single portfolio. Each organisation has at least one portfolio that consists of a set of current projects and programs and planned future initiatives.

Project portfolio management provides the capability to effectively select, prioritise, and oversight the organisations project and programs to optimise value despite shifting business, technology, and market conditions. In managing and controlling the project portfolio, decisions involve re-visiting each project’s critical success factors,

including resource availability and the continued validity of the business case, with the business sponsors.

The selected components both reflect and affect the strategic goals of the organisation¹; that is to say, the portfolio represents the organization’s set of active programs, projects, sub-portfolios, and other work at a specific point in time.



(Diagram adapted from «The Project Age: Working Paper No. 1», Claude Emond, Renee Thibault, Hugues Bouchard)

Portfolio management is also a key part of the organisations overall governance structures. Organisational governance² occurs at different decision-making levels of the organisation to support specific goals and objectives defined through the organisation’s strategic planning process. Strategic planning defines the means of attaining the goals through either operations (ongoing organisational activities) or temporary endeavours (projects) and also defines how they are governed. Whether managing operations or managing projects, all governance levels are linked together to ensure that each organisational action is ultimately aligned with organisational strategy.

¹ For more on alignment see: http://www.mosaicprojects.com.au/WhitePapers/WP1042_Outputs_Outcomes_Benefits.pdf
² For more on Governance see: http://www.mosaicprojects.com.au/WhitePapers/WP1033_Governance.pdf

Portfolio Balancing

The project portfolio should be optimised for the current economic climate, business strategy, emerging competitive forces and a host of other imperatives that could influence the organisations overall investment strategy. Projects and programs need to be selected based on a range of factors; some high risk high reward programs that may create the ‘organisation of tomorrow’, some operational projects needed to ‘keep the lights on’ and some ‘safe’ projects with a satisfactory ROI and payback period that improve the current business.

Too many projects and programs in any one area will diminish the long term growth of the organisation and the current selection of projects and programs to continue should be rigorously reviewed on a routine basis culling projects or programs that no longer contribute value and redirecting resources to more valuable work. Some of the factors that limit the optimisation of the portfolio, and make it very difficult to divest under performing projects and programs in order to divert their funds and resources to higher valued projects are.

1. Governance processes that permit individual business units and departments to spend budgets ‘under the radar’, tying up resources that could be better used elsewhere.
2. Projects which are difficult to stop because they have significant upfront costs with few early or intermediate benefits making it difficult to kill a project before it has delivered something - sunk costs should not influence decisions but frequently do because of the way people's minds work.
3. Approval processes that sanction projects individually instead of looking at the collective portfolio for the best use of organization resources.
4. Few, if any, ongoing structured gateway reviews to assess project performance and its alignment with the current objectives of the organisation.

Balancing these factors with the need to invest in changes that have the potential to deliver the maximum value to the organisation is the key challenge facing portfolio managers.