MASTER CLASS

KEYEDIN PROJECTS

BUILDING AN EFFECTIVE PROJECT PORTFOLIO MANAGEMENT FRAMEWORK

Understanding how to select, prioritise and execute projects to deliver the highest strategic and tactical business value

PPM Master Class Part 4

Building an Effective Project Portfolio Management Framework

KEY FACTS:

- THE PPM FRAMEWORK ENABLES ORGANISATIONS TO BUILD A REPEATABLE FRAMEWORK FOR SELECTING, PRIORITISING AND EXECUTING PROJECTS
- IT PROVIDES THE FUNDAMENTAL TOOLS TO MEASURE PERFORMANCE AND ENSURE THAT ALL PROJECTS AND PROGRAMMES ARE COLLECTIVELY DELIVERING THE ORGANISATIONS STRATEGY
- IN THIS WHITEPAPER WE EXPLORE HOW THE 6 KEY AREAS OF THE PPM FRAMEWORK CAN HELP DRIVE SUCCESFULL PROJECTS THROUGH PORTFOLIO DEFINITION, IDEAS MANAGEMENT, STRATEGY, RESOURCE AND BUSINESS CAPABILITY ANALYSIS, PORTFOLIO SELECTION, PRIORITISATION AND AUTHORISATION, AND PORTFOLIO EXECUTION AND MONITORING

Understanding how to select, prioritise and execute projects to deliver the highest strategic and tactical business value

In Part 4 of the PPM Master Class we will take a high level view of the PPM framework and discuss its 6 key areas, including Project Portfolio Definition, Ideas Management, Strategy Alignment, Resource and Business Capability Analysis, Portfolio Selection, Prioritisation and Authorisation, and finally Portfolio Execution and Monitoring. The framework takes into account the fact that every business is different, we would recommend that the framework be used as a baseline, and the various phases and steps be adapted to suit your own business.

The purpose of the Project Portfolio Management Framework

The purpose of the Project Portfolio Management framework is to enable organisations to build a repeatable framework for selecting, prioritising, approving, and executing projects in relation to the businesses objectives. A well-structured PPM framework enables organisations to consistently balance the portfolio of projects to ensure that the business has the right mix of short, medium and longterm projects. It also enables organisations to identify and take corrective actions on non-compliant projects.

The Project Portfolio Management framework is designed to empower both project managers and the business by identifying, qualifying, and funding projects that address the business strategy. In addition, it is a key tool for managing an organisations resource demand, capacity, and capability to ensure the business delivers its objectives.

The PPM Framework also provides the fundamental tools to measure performance, to ensure that all projects/programmes are collectively meeting the portfolio strategy and that a process is implemented to make continuous improvements to the portfolio.

KEY FACTS:

- IT IS IMPORTANT TO REMEMBER THAT EVERY BUSINESS IS DIFFERENT AND ESSENTIALLY THE PPM FRAMEWORK IS ABOUT THE SELECTION, PRIORITISATION AND EXECUTION OF PROJECTS TO DELIVER THE HIGHEST VALUE BASED ON THE PREESTABLISHED PORTFOLIO BUSINESS DEFINITION AND CRITERIA.
- THE KEY TO DEFINING YOUR PORTFOLIO IS TO SEEK A STRUCTURE THAT SUPPORTS BOTH YOUR ORGANISATION AND PROJECT HIERARCHY BOTH INDEPENDENTLY OF ONE ANOTHER OR COMBINED.

Component areas of the Project Portfolio Management Framework

The Project Portfolio Management Framework consists of 6 key areas, these are:

- Project Portfolio Definition
- Ideas Management
- Strategy Alignment
- Resource and Business Capability Analysis
- Portfolio Selection, Prioritisation and Authorisation
- Portfolio Execution and Monitoring

It is important to remember that every business is different and essentially the PPM Framework is about the selection, prioritisation and execution of projects to deliver the highest value based on the pre-established portfolio business definition and criteria. The PPM framework has two distinct parameters, these are:

Strategic Portfolio Parameters: these focus on the overall portfolio results and the impact on the business's strategic objectives

Tactical Portfolio Parameters: these focus on the condition, health and performance of the individual projects

The Portfolio Definition Process

The portfolio definition process is where you define the terms, scope and definition of your portfolio, and gain agreement on your basic portfolio model. For example, you may need to agree on the scope of the organisational coverage, such as groups, units, divisions, departments. Alternatively for some businesses this may be functional areas, teams or Product/Service types.

Secondly, as part of defining your portfolio you will need to seek agreement on the scope of work included within the portfolio, what types of projects, for example: tactical projects, administrative projects, strategic projects, innovation projects or future vision projects.

The key to defining your Portfolio is to seek a structure that supports both your organisation and project hierarchy both independently of one another or combined. It is also key to have a clear definition of how projects and programmes will be categorised, examples include mandatory, strategic, business support, experimental, infrastructure, maintenance or cross organisational. These categories will be key when analysing the portfolio mix, the movement of resources and making important strategic portfolio decisions.

KEY FACTS:

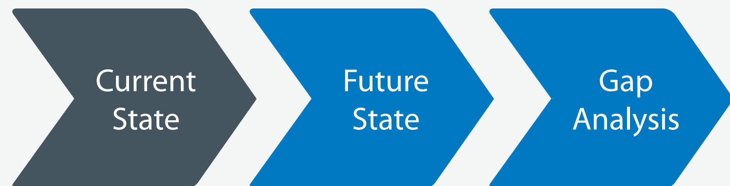
- THE NEXT STAGE OF ALIGNING YOUR STRATEGY IS TO CONSIDER YOUR FUTURE VISION. YOUR FUTURE STATE VISION OR 'WHAT SHOULD BE'.

It is important from the outset to define the portfolio's key performance indicators (KPIs) which effectively form your portfolio scoring model, for example business improvement, cost reduction, market penetration or revenue generation may all be valid KPI's or Portfolio Scoring Metrics. Some examples of standard scoring metrics include:

- Net present value
- Productivity Index
- Earned value analysis
- Internal rate of return (IRR)
- Cost/ benefit analysis

Achieving Strategic Alignment

When we look at aligning our portfolio it is important to remember that the value that a project brings is based on the cost/benefit implications and how well it aligns with your organisation's goals and strategies. So in order to achieve strategy alignment an organisation must generally progress through three stages.



The first stage is the Current State Assessment. The current state assessment is used to tell us 'what is'. Basically it is an analysis of your organisation today, describing the current work and position. This is important as it is essentially your current understanding of your project portfolio and current business strategy. To move forward it is essential to have a grasp on 'now'.

The next stage of aligning your strategy is to consider your future vision. Your future state vision or 'what should be'. This describes your organisation's mission, vision and where your organisation should be in 3, 5, 10 and 15 years. This provides focus to the portfolio and strategy alignment. Commonly your future state vision may focus on 3 key areas - Market, Product and Services. For example, in 5 years time you may wish to break into a new geographical market.

The final stage is the Gap analysis or 'how to'. This forms the basis of the portfolio selection and describes how to get there. For example, which projects have to be undertaken to achieve the business goals. One of the purposes of the gap

KEY FACTS:

- KEY TO ACHIEVING YOUR STRATEGIC OBJECTIVES IS BEING ABLE TO VISUALISE HOW YOUR STRATEGY WILL TRANSLATE INTO PROJECTS.

analysis is to define a set of projects to close the gap and move you toward your desired state. You should find that during the gap analysis you identify many different types of project including:

- Long / Medium / Short Term Projects
- Low / Medium / High Risk Projects

Each has its place in delivering an effective portfolio and a fully aligned strategy.

Strategic Objectives and how to achieve them

Key to achieving your Strategic Objectives is being able to visualise how your Strategy will translate into projects, this will help you define the project hierarchy and to define any project interdependencies, it will also prove vital when you are prioritising your project portfolio.

Four distinct stages are used to align strategy with projects. At the top we have the strategy, for example Growth, Cost Reduction, New Products, Head Count Reduction or Agility.

If we look at Growth, there are a number of factors by which growth can be created, such as an Increase in Market Share, the introduction of New Products, breaking into a new geographical region or through acquisitions. Dependent on your business you may wish to drive growth through 1 or more of these factors, the key is, we have a clear mapping back to the business strategy.

KEY FACTS:

- RESOURCE AND BUSINESS CAPABILITY ANALYSIS IS CRUCIAL TO DETERMINING WHETHER THE BUSINESS HAS THE CAPABILITY TO UNDERTAKE THE REQUIRED WORK IN ORDER TO MEET THE PORTFOLIO OBJECTIVES.

If we focus on Gaining Market Share we can then see that there are a number of ways we can accomplish this, for example by lowering prices or by providing a faster service. Again we have a clear map of how we wish to gain market share and how this relates to our growth strategy.

And finally we have our projects, in the case of an IT Department this may be how we apply IT to accomplish the goals. However, independent of your shape, size or focus, by mapping your strategy through to projects in this way will enable you to build an effective project hierarchy whereby you can easily analyse the impact of each project on the overall strategy.

Resource and business capability analysis

Resource and Business Capability Analysis is crucial to determining whether the business has the capability to undertake the required work in order to meet the portfolio objectives. There are 3 key steps to analysing Resource and Business Capability.

Step 1: Determine resource demand and constraints

This step looks to understand the resource spread between business-as-usual activities such as existing projects and administration, and the demands of new projects. The goal is to root out invisible projects that are often buried or masked as routine work and soak up essential resources.

- Determine the resource spread between business-as-usual activities and new projects
- Determine the resource demands of new projects
- Identify existing resource demands and constraints
- Analyse the ratio of resources between existing and new projects

Step 2: Create resource supply and demand scenarios

Step 2 includes analysing the impact of cancelling active projects, putting them on hold, analysing their impact over 3, 6 and 12 month periods, as well as examining the possibility of delaying or bringing forward projects, and understanding their overall effect on the business's capacity.

- Model different resource scenarios analysing the impact across 3, 6 and 12 month periods
- Examine delaying or bringing forward projects

KEY FACTS:

- THE PPM FRAMEWORK NEEDS TO PROVIDE THE PPMT WITH A CONTROLLED AND PREDICTABLE METHOD OF MONITORING RESOURCE AND BUSINESS CAPABILITY AGAINST THE STRATEGIC PLANNING PROCESS.

- Create portfolio variants for different allocations of resources
- Develop resource redistribution scenarios and analyse their impact on the business
- Determine the need for addition internal and external resources
- Define resource development requirements based on skills requirements

Step 3: Allocate resources

As a result of scenario analysis, changes are made to the existing allocation of resources across the portfolio as well as the organisation's existing business-asusual activities. Essential here is to establish metrics and processes that will allow the business to determine at what point in time there will be insufficient or excess capacity for the project portfolio as a whole.

- Define the resource allocation for each project
- Decide whether to create additional internal or external capability
- Determine resource allocation for each project
- Implement ongoing capacity management in order to provide visibility of long term resource requirements

Ongoing, responsive capacity management requires constant access to up-tothe-minute data from all related systems.

Resource supply and demand information

The PPM framework needs to provide the PPMT with a controlled and predictable method of monitoring resource and business capability against the strategic planning process. One of the essential components of PPM is its ability to enable the business to implement an equitable balance between the demand and supply of resources.

With the support of the PMO as a project knowledge centre, the PPMT is able to collect all the relevant information to update the project portfolio and build supply and demand scenarios that can be fed back into decision making. This in turn allows the business to make the right selections and allocate resources to the highest priority activities across groups and organisational units.

Portfolio Selection, Prioritisation and Authorisation

The primary objectives of Portfolio Selection, Prioritisation and Authorisation are two fold:

- To select & prioritise projects to deliver the highest value
- To ensure that there is a balance in the mix of projects

These can be broken down into additional objectives, including:

1. Building a project registry

This involves documenting a detailed inventory of projects, including:

- Is the project worth doing?
- What is achievable?
- Is there sufficient capability and capacity to do this?
- What is the impact on the business?
- What are the relative benefits of each programme/project?

2. Scoring & prioritising

Developing a value ranking for each project against tactical criteria and strategic objectives.

3. Identifying and measuring risks

Analysing and identifying project risks vs benefits. Key risk variables include:

- Project interdependencies within the portfolio
- Resource capacity/capability vis-à-vis demand
- Changes in business strategy vis-à-vis operational activities
- Changes in business processes that confl ict with the PPM process
- Governance risk
- Strategic risks
- Operational risks
- Market risks
- Legal risks

KEY FACTS:

- PRIORITISATION CRITERIA FOCUS ON BOTH THE TANGIBLE AND INTANGIBLE BENEFITS OF PROJECTS.

4. Balancing the portfolio

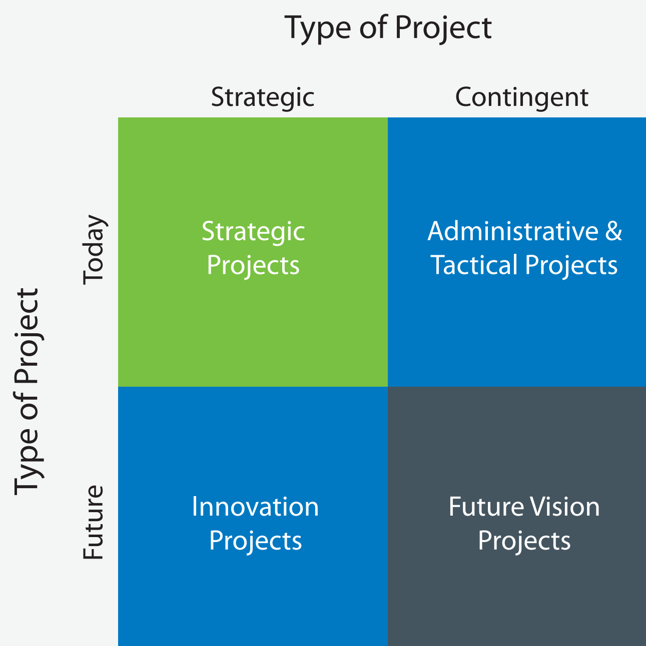
Developing an idea of an optimum or acceptable size of the project pipeline, including:

- Understanding value and risk enables the business to construct a portfolio that is balanced
- Managing the number of high risk / low risk
- Managing the number of long-term, Medium Term and Short Term Projects
- Eliminating overlapping and redundant projects

It is important to recognise that the project portfolio will comprise of projects that offer widely differing values but collectively strive to achieve the overall strategic objectives. Projects within the portfolio will have varying short and long-term benefits, specifically as regards to their synergy with corporate goals, and their level of investment and anticipated payback.

Categorising types of projects

An essential part of selection and prioritisation is categorisation. Prioritisation criteria focus on both the tangible and intangible benefits of projects. As part of the categorisation we need to look at long-term strategic orientation of projects as well as their operational impact.



KEY FACTS:

- HAVING AN EFFECTIVE PPM FRAMEWORK IS ESSENTIAL FOR ALIGNING PROJECTS WITH YOUR CORPORATE OBJECTIVES, BUSINESS STRATEGY, AND FOR ENSURING YOU SELECT AND PRIORITISE PROJECTS BASED ON YOUR RESOURCE CAPABILITY AND FINANCIAL CONSTRAINTS.

The diagram illustrates some of the common categorisation types:

- Tactical projects deliver competitive advantage today – these are considered low risk
- Administrative projects deliver on currently promised service levels and support existing strategic projects – these are considered low risk
- Strategic projects deliver competitive advantage in the future - these are considered high risk, requiring a high skill level
- Innovation projects are smaller / deliver possible competitive advantage tomorrow these are considered high risk, requiring a high skill level
- Future Vision projects are contingent upon strategic and innovation projects - these are considered high risk, requiring a high skill level

Project types can also be categorised by level of importance, for example:

- Mission critical projects are essential to successful delivery. If the project is not successful there are major implications to the business
- Highly desirable projects are important but not essential. If the project is not successful there are serious (but not major) implications
- Desirable projects are all those that do not meet the mission critical or highly desirable criteria

After projects have been categorised, prioritised, allocated funding and resourced, the portfolio plan is ready to be approved and should be published to the business.

In Conclusion

Having an effective PPM Framework is essential for aligning projects with your corporate objectives, business strategy, and for ensuring you select and prioritise projects based on your resource capability and financial constraints. The typical steps involved in executing and monitoring the portfolio include:

Step 1: Gathering project portfolio information

- collecting individual project score cards
- building a consolidated portfolio score card
- collecting project and portfolio resource plans including shortfalls and new demands
- building a detailed project status report
- building a detail portfolio status report

Step 2: Measuring and analysing the project portfolio

- measuring the performance of ongoing projects
- measuring the success of completed projects
- measuring interdependencies between projects
- measuring overall business value and alignment
- determining an inventory of projects for portfolio course correction changes

Step 3: Analysing the impact of changes to the project portfolio

- analysing the impact of projects that may be cancelled
- analysing the impact of newly identified projects
- analysing the impact of current projects not achieving objectives
- analysing impact of projects that have changed their scope

Step 4: Reviewing portfolio changes and re forecasting

- filtering new projects against the existing project portfolio
- reviewing current and new portfolio goals and objectives
- ensuing individual project business cases are revalidated and aligned with these objectives
- ranking projects against revised priorities
- updating the project inventory
- modelling resource scenarios and analysing the overall impact on the business
- selecting scenarios and updating the resource schedule

Step 5: Communicating and implementing portfolio changes

- revalidating business cases for existing authorised projects
- revalidating business cases for newly authorised projects
- issuing a new project portfolio review
- providing guidance on changes to portfolio work
- communicating with project stakeholders
- agreeing a timeframe for the next portfolio review
- making ‘go/kill/hold/fix’ decisions

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KeyedIn Manufacturing is an ERP system that helps custom manufacturers work smarter so they can increase productivity and bring new products to market quickly, for a distinct competitive advantage. KeyedIn Projects, the company's project management suite, helps businesses and professional services organisations improve everything from project initiation to execution by managing programmes based on top-line strategy and delivering profitable projects to the bottom line. And when new solutions need to be developed quickly, KeyedIn clients turn to KeyedIn Flex, the company's rapid application development (RAD) platform for affordable applications designed just for them.

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Corporate Headquarters

5001 American Blvd West
Suite 1010
Minneapolis, MN 55437, USA
p +1 866 662 6820

EMEA Headquarters

Maple House
Woodland Park
West Yorkshire, BD19 6BW, UK
p +44 (0)1274 863300

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