

Project Portfolio Management

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These days everyone is constantly searching for cost-cutting opportunities, a necessity to preserve companies' growth.

Cost control, strategic alignment, risk management and the involvement of business line managers have been recurring topics in the media these past few months.

Today, arbitration on project implementation is extremely complex, as excessive cuts may result in backlogs and unfulfilled objectives...while business needs are higher than ever. As with the overall consistency control of a business, project control has become a strenuous task.

It is therefore essential to make sure that investments are aligned with a company's primary objectives as identified by different business lines. Implementing adequate Project Portfolio Management, in conjunction with an appropriate decision-making process and sufficient company governance, allows a company to achieve its identified goals at the budgeted cost.

Historical overview

Project Portfolio Management first appeared in the 1980s and was initially used exclusively by research and development (R&D) centers in the pharmaceutical industry.

As it evolved, it was adopted for use by the construction, car, aeronautic, energy and telecommunications industries.

Over time, the concept developed into an indispensable arbitration and management tool, connecting departments in charge of strategy with project teams.

The current financial market context

The current context of the financial markets and the evolving needs of the financial industry generate an ever-growing number of new projects. At the same time, budgets and resources are systemically decreasing.

New challenges therefore arise:

- Difficulties in controlling budget overrun,
- Complexity of setting up a homogeneous reporting system (selection of key criteria and indicators supporting decision-making),
- Redefinition of a project's strategic alignment (consistency between a project portfolio and a company's strategic priorities),
- Critical resource management (optimization of the provisional resources/needs).
- Arbitration rules need to be redefined.

Efficient Project Portfolio Management will ease the prioritization process for new and on-going projects and will facilitate the intercommunion of different monitoring tools at the organizational, staff and procedural levels, thereby increasing efficiency and detecting resource overload/under-load allocated to a group of projects.

It will also contribute to budget implementation planning, to the reduction of processing times for new project launch requests.

What is a project portfolio?

A project portfolio contains a group of investment and reengineering projects, namely:

- Projects in progress (NB: Projects in progress are often long-term projects. They have a high impact on the project portfolio arbitration phase),
- New projects to be launched (launch requests to be arbitrated),
- Completed projects (disassembly, abandonment of the project, reorientation).

Depending on the activities or the period concerned, a project portfolio profile can be more or less homogeneous.

For example, an investment project portfolio may be comprised of 90% new projects and 10% long-term projects.

In this instance, the company would be more likely to launch new projects, a sign of good financial health.

What is Project Portfolio Management?

Project Portfolio Management allows for the monitoring of a group of projects by developing a consolidated view of them all. Moreover, it aligns a company's objectives with its business line development strategy. It differs from standard project management through the gathering of projects under portfolios, providing decision-makers with a list of projects ranked by cost and priority.

The decision-making process is therefore facilitated, thanks to a global view of every project.

Indeed, Project Portfolio Management not only focuses on criteria such as cost and return on investment, it is also a decision-making tool, as it enables the evaluation of risk and review of strategic values for each project included in a portfolio's scope.

To guarantee the effectiveness of project management

Project Portfolio Management is defined and executed by a team called the Portfolio Management Office: the PMO. Its objective is to aggregate and capitalize on project know-how and best practices: the centralization of management-related information and information required for strategic choices made during any project life cycle, or for communication and reporting purposes.

The Project Portfolio Management Office also centralizes information on behalf of arbitration bodies by submitting the data and documents necessary for project investment decisions to decision-making bodies.

The Project Portfolio Management Office is crucial to guaranteeing that a company has a plan to organize and efficiently manage its many different projects during all project life cycles.

Moreover, it ensures that decision-makers are informed about local and central decisions and arbitrations, as appropriate, and consolidates the organization of projects to be launched by bringing them in line with company strategy. (For instance the selection of projects allocated for business growth or preservation of service quality).

Furthermore, the Project Portfolio Management Office's work is based on standardized and homogeneous tools, in conjunction with the company's project management standards.

These tools might include dedicated software package programs (such as « Artemis 7 Project Portfolio Management for Investment Planning and Control TM») that are specifically developed to respond to demand, or lighter office automation tools such as Excel.

The preparation of required elements for a project's investment arbitration is an essential prerequisite (the specifics being contingent on established evaluation and analysis criteria): new IT and business project launch requests, on-going progress projects, budget analysis (budgets v. expenditures).

The Project Portfolio Management Office also provides a roadmap for on-going project portfolios, the monitoring of these projects and the coordination between connected projects within the same group.

How to arbitrate and choose priority projects

Arbitration criteria for the implementation of projects is usually selected based on 3 fundamental pillars:

- Strategic alignment,
- Creation of added value, resource optimization and cost-cutting,
- Regulatory alignment.

Pillar 1: Strategic alignment

Strategic alignment consists of the arbitration of expenditures regarding a project's strategic value.

It encompasses the following actions:

- To implement the decisions of arbitration authorities,
- The alignment of projects and business priorities,
- The consolidation of monitoring for Project Portfolio Management.

This pillar is used for all business and IT projects, in line with a company's evolution strategy, and must facilitate the arbitration of resources (business and IT) to be allocated on projects.

Pillar 2: Creation of added value, resource optimization and cost-cutting

Pillar 2 pertains to the reduction of project budgets.
The following actions to be taken include:

- Setting up a Project Portfolio Management Office to deal with project cost management and monitoring of delays,
- Decision and arbitration on projects.

This pillar enables the monitoring of expenditures and facilitates the detection of « flagship projects » (growth contributors). The formal monitoring of these projects implies a strong management of costs and delays.

Pillar 3: Regulatory alignment

Regulatory alignment consists of balancing the requirements of strategic projects and related investment requests with regulatory compliance.

It involves the following actions to be taken:

- The implementation of a consolidated governance plan, allowing better time visibility of regulatory constraints and related costs,
- Project arbitration committees taking regulatory costs into consideration.

This pillar is focused on regulatory constraints, which create related investment requests. It is important to note that the advanced and well-thought-out implementation of regulatory projects may be a source of added value.

Indicator models to be implemented within the framework of the project arbitration process

The arbitration process in the selection of projects, or the launch of a business plan, is closely linked to the implementation of an identified indicator typology, in line with considerations such as the added value created by the new project to be launched, or the project's strategic alignment.

A dedicated indicator attribution model is related to strong knowledge of the company's strategy: expected business targets and business lines (needs tied, for instance, to the development of a specific customer segment), adequate levels of risk-taking while implementing a new program and recognizing the opportunities to be seized.

Prerequisites have to explicitly reflect the company's strategic/global view and expected target(s).

For example, some arbitration and selection indicators in the context of investment banking include:

- **Added value indicators:**
 - Efficiency of the risk detection process,
 - Responses to regulatory demands,
 - Optimization of monitoring operations,
 - ...

- **Risks related to implementation:**
 - Instability of the commercial environment,
 - Technological ignorance of new IT developments,
 - Insufficiency of key resources,
 - ...

The indicators used in the case of project arbitration are likely to evolve and may be reviewed on a regular basis (once a year, for example, before starting the budgeting process), in order to assess evolutions linked to the current market context, and to a company's organization.

Project Portfolio Management, an essential strategic tool for companies

The Project Portfolio Management should involve every decision-maker within a company, and especially the head of the IT department.

Project Portfolio Management is linked to a company's strategic and operational authorities (strategic committee, project arbitration and investment committees...) It should be used as an additional tool and may rely on already existing decisional solutions whose objective is to give the « deciders » multiple representations of data and indicators.

Project Portfolio Management has certainly come a long way from the R&D and pharmaceutical environment of the 1980s...

Whether in cost-cutting or in growth mode, Project Portfolio Management is an essential strategic tool for a company.

Given the current context of the finance industry, and the ever-greater focus on transparency, it is now more crucial than ever to have the efficient, streamlined oversight a Project Portfolio Management Office can provide.