

Best Practice

Structuring Portfolios in CA PPM



Abstract

This document provides best practices on the theory and practice of structuring portfolios for optimum benefit, as well as identifying key portfolio functionality within CA Project and Portfolio Management (CA PPM). This document can help organizations determine the appropriate level of portfolio structure for their organization.

Concepts

The following concepts are discussed in this paper:

Concept	Definition
The Art of Portfolio Management	Describes why portfolio management is important to an organization
The Science of Portfolio Management	Details portfolio management best practices as it relates to structure
Project	A project provides a collaborative framework where it is possible to define and track the body of work to be executed by the project team. A project contains: <ul style="list-style-type: none">▪ Tasks and staff▪ Cost forecasts and budgets▪ Actual work effort and associated costs – both labor and non-labor Risks, issues and change request
Portfolio	A portfolio is a collection of projects or other investments that share a common budget, or compete for scarce funds and/or resources. The Portfolio is used to prioritize, analyze and compare key metrics such as ROI (return on investment), NPV (net present value), payback/breakeven point, risks, and benefits.

Portfolio management	Portfolio management is an investment management process; it does not include the physical management of an investment, however it is the process by which an organization chooses which investments to undertake.
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The Art of Portfolio Management

In its simplest form, a portfolio is a collection of investments managed as a group. Portfolio management is the centralized management of one or more portfolios to achieve specific outcomes for the organization. The investments within the portfolios are prioritized based upon several factors, allowing the organization to make decisions on how best to meet an organization's goals and execute plans.

There are many aspects of project governance that must be analyzed and decisions that must be made so that the portfolios reflect appropriate information and useful levels of hierarchical data. Organizations should consider:

- Organizational maturity level
- Appropriate risk acceptance
- Budgeting and cost analysis
- Governance methods and capabilities

Without portfolio management and the components that go with it, the projects and programs in which an organization invests budget, employee time and strategic focus might be ineffective, outdated or not justified.

The Science of Portfolio Management

Determining the structure of the organization's portfolios is important so that the executives responsible for approving project and program investments have the necessary data to make informed decisions. Following the steps are essential to determine an organization's portfolio structure.

1. Assess the maturity level of the organization. For each level, there is a recommended portfolio structure. When designing a portfolio structure, an organization should consider its maturity goals in the short and medium term so it can plan its path forward accordingly.
 - Level 1 - Decisions are made on a local level; typically, decisions are made independent of other decisions. Resource management does not exist in a formal or semi-formal way. Resources are assigned and work is conducted at the department level. Capital expenditure governance may exist but it does not filter down to the project or program level.
 - Level 2 - There are investment governance processes in place which provide a framework for decision making. Business cases exist and are used to justify work expenditures. Large capital items tracked and managed perhaps by simple lists. Reaching Level 2 takes a bit more organizational effort than Level 1.

- Level 3 - There is a standardized method for determining project alignment to organizational strategy. Each potential work effort is analyzed to determine possible risk and priority within a portfolio. Transitioning from Level 2 to Level 3 takes the greatest effort for most organizations.
 - Level 4 – The organization evaluates initiatives based upon a standard set of rules. This approach disallows favoritism and consistently uses the same criteria for each effort. Current and future work is prioritized by risk and return, basing the decisions upon data, not instinct or subjective bias. Decisions regarding future work considers resourcing with expected risks and returns to evaluate capacity.
 - Level 5 - The most mature level for an organization takes the Level 4 capabilities and adds to it the “what if” capabilities. These new capabilities allow executives to evaluate different future paths for the best return. Information communicated to executives may influence the organization’s strategy.
2. Establish a governance structure if one does not exist. Define a team with decision-making authority that meets on a regular basis to prioritize work, make investment decisions and provide oversight. This group develops and applies prioritization criteria, sets funding levels, approves/declines project recommendations and gives guidance on policy.
 3. Determine the method to be used to calculate the value each effort of work will bring to the organization. This is often called a value-measurement framework. This will allow the organization to answer questions and share information internally regarding each work effort. Common questions include:
 - What will the value of this project be?
 - Where will the value come from? (Examples: reduced cost, increased revenue, greater customer satisfaction, etc.)
 - What are the risks of this project and what is an appropriate level of risk for our organization? What is the risk-adjusted value of the project?
 - Is the value of the project sufficient enough to warrant spending the money to implement?
 - What group(s) of projects will provide the most value for the associated resources?
 - Which group of projects will support our organizational goals and objectives?
 - If funding is increased or decreased, what will the resulting portfolio value be?
 4. Confirm that all efforts of work are aligned to one or more corporate strategies.

Defining An Optimum Portfolio Structure

For each maturity level, the organization can pursue a recommended or optimal portfolio structure.

Level 1

For this level, projects are managed on a project-by-project basis. If costs are tracked, they are done so only at the project level. Portfolio data is not managed centrally nor regularly updated. There is no process determining project value and no executive leadership team (ELT) is defined. Often, resources are over committed as there is

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no process for balancing resource demand. There is no risk assessment conducted or validated and projects are not identified by alignment to organizational objectives or goals.

Level 2

This level replaces the project-by-project assessment of Level 1, making the goal of identifying the best collection of projects to be done based upon current resource levels. This will require project data aggregation and prioritizing the projects. The following items must be considered:

- Remove or combine redundant projects.
- Begin business case assessment (at least for the larger projects) with the goal of providing consistent assessment quality.
- Individual departments with individual funding buckets may look at their projects at a department level.
- The decisions used to select projects are explicit, however at this stage the value framework may not be completely defined, accurate or updated.
- Schedule and cost overruns are common and the risk of project failure is high.

Level 3

As stated above, the effort required to transition from Level 2 to Level 3 maturity is the greatest. Level 2 provides project groupings with little process involvement. Level 3 provides more process maturity.

- Processes exist and are being followed to analyze and quantify project value. These processes are well defined, accepted and documented.
- Project dependencies are identified, tracked and managed.
- PPM processes are defined and documented, and the governance around these processes – including the roles and responsibilities around the governance team is documented and followed.
- Project approval is consistent and monitored.
- Portfolio boundaries are defined and broadly understood by the organization.
- Value identification is reviewed and updated consistently based upon the defined process.
- Costs, forecasts, and budgets are reviewed at the portfolio level.

Level 4

Level 4 shows optimization of the efforts from Level 3, including mature processes, analytics, and quantitatively managed behavior. Organizations at Level 4 are using quantitative analysis and measurements to obtain efficient, predictable and controllable project and portfolio management. The organization's various portfolios are rolled up into a single all-inclusive 'master' portfolio. Portfolio optimization is used to coordinate and manage the individual portfolios. Level 4 organizations are obtaining the bulk of the value available from practicing PPM.

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- Processes are clearly defined and/or updated.
- A value framework model is consistently used and improved.
- Executives are actively engaged and look for ways to increase project value and reduce project risks.
- Trend reporting and high level portfolio management reporting exist with executives being the recipients of these reports.
- The ownership and accountability of risks exists.
- Organizational goals and objectives are used as the basis for the review and approval of work efforts.
- Portfolio data is current and accurate.

Level 5

When an organization makes portfolio management a core competency, has implemented a dedicated PPM solution and has documented detailed plans for continuous learning and improvement, they have reached a Level 5 maturity.

- Processes are continually refined and take into account the changing environment, the increase of knowledge, and other factors external to the business.
- Resource usage is efficient, driven by the portfolio and designed to attain the organization's strategic objectives.
- Gate reviews are used to assess and manage the portfolio.
- Benefits realization is aligned with the value measurement framework.
- Portfolio management and strategic planning are aligned.
- Risk management drives decision making throughout the organization.

Building Portfolio Maturity

Building portfolio management maturity is an endeavor that, depending upon the size of the organization and the level at which they must start, may take years. An organization will invest the largest amount of time in order to obtain Level 3 maturity since this level of maturity requires detailed processes and a framework that may not yet exist. Creating a roadmap of specific strategic and tactical actions will allow the organization to map out the functionality to be implemented and will also help identify the timeframe needed. This roadmap needs to be flexible so that it can be adjusted appropriately as the environment and initiatives typically change for an organization.

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