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CONTROLLING THE ENTERPRISE

ANTONIO NIETO-RODRIGUEZ ON IMPLEMENTING PROJECT PORTFOLIO MANAGEMENT

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IMPLEMENTING PROJECT PORTFOLIO MANAGEMENT

Author ***Antonio Nieto-Rodriguez*** investigates the challenges of the project selection and prioritisation process.

In this article, I will consider some of the key elements of the design and implementation of a project selection and prioritisation process (PSP) as part of an enterprise-wide project portfolio management (PPM) deployment at a large European telecom operator.

The company, a market leader for many years, has been overtaken by two younger and more dynamic telecoms operators. Many of its new products were launched several months later than the competition and time-to-market had doubled in the last three years.

The company had more than 100 large projects in progress, all in excess of £500,000. Nobody in the organisation, however, had a clear view of the status and the benefits that should be derived from the investments.

We had implemented one of the Gartner top quadrant PPM tools years ago, but the lack of discipline to input and to use it made the tool a very expensive and fruitless asset. Capacity, and not strategy, was determining the launch of projects, meaning that the project was launched only if the experts were available, if not, it was dismissed.

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By then, top management had realised we needed to change – quickly. There was an urgency to improve the way we were managing our portfolio of projects.

WHAT IS A PPM PROCESS?

Despite the critical situation, the first challenge I faced was to make top management understand what PPM is and why we needed to invest in developing a company-wide PPM framework. Most executives do not have a good understanding about project portfolio management. The first thing that comes to their minds is that this concept is about financial portfolio management, how to deal with stocks, shares and investments, and besides the CIO, none of them related portfolio management to their projects and change initiatives. Therefore, we decided to develop a short guide to explain to senior management the benefits of PPM using business terms.

EXECUTIVE'S GUIDE TO PPM

Which projects are in the best interest of our company? What is the best use of its existing and future financial and operational capacities? Alternatively, which projects should we stop, suspend or delay in case of sudden economic downturn or change in our strategy? Providing the means to answer those questions more rationally is precisely the objective of PPM.

PPM is the layer that rests on top of all project and programme management activities. It is the cockpit of the change-the-business activities. It's composed of its own set of processes, templates, tools, techniques, roles and responsibilities, which differ from the project and programme management processes. The most important aspects of PPM are:

- A **STANDARD AND STRUCTURED PROCESS** for collecting new project ideas and demands. This company-wide process must be applied consistently, which makes the next step – comparing project ideas – much easier. Every proposed idea requires a business case and some common qualitative criteria, such as strategic alignment, assessment of risk factors and determination of interdependencies. The ideas for the most strategic projects, such as acquisitions, often will come directly from top management; but management should follow the same process. It is important to note that projects are not only about business ideas or research and development, projects also have to deal with organisational improvements; cost reduction; risk management; regulation, both national and international; laws; and asset obsolesced (software, hardware and premises).

- A **PROCEDURE FOR PRIORITISING AND SELECTING** the new project ideas. On-going projects must also be prioritised, particularly the first time the prioritisation process is implemented. The selection process has to be fair and transparent, based on criteria against which the new proposal is assessed. Some common criteria for analysing the new ideas are net present value (NPV), return on investment (ROI), payback period, strategic alignment, risk, complexity and interdependencies. One very important selection criteria involves ensuring that the company has the right competencies to deliver the project; this is determined by performing a capability check. Although the theory says that we should develop formulas that automate the process of prioritising and selecting the projects, our recommendation is to not use such a systematic approach. The exercise is mainly to provide management with different orientations and viewpoints, but the ultimate decision has to be made by management based on human intelligence.

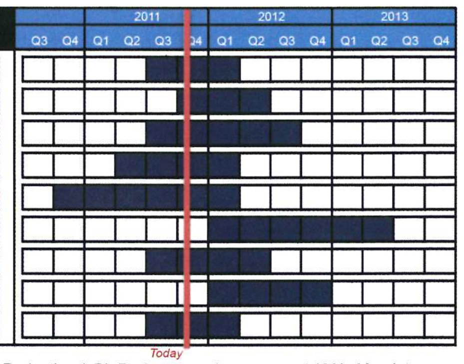
- The **STRATEGIC ROADMAP**, which lists the change-the-business dimension's running and new projects for the next two to three years. The company's strategic objectives and goals should be clearly reflected by this roadmap (see table 5.6 – Example Strategic Roadmap), and the project list should be prioritised so that the top three projects are clearly identified. These top projects usually do not change and are the focus of most of management's attention. The strategic roadmap is communicated and explained throughout the entire organisation.

- A **GOVERNING BODY** – the Investment Decision and Strategy Execution (IDSE) committee – decides the ideas and initiatives the firm will invest in and those that will be stopped or delayed. This committee also approves the company's strategic roadmap for the next two to three years. The positioning and the members that participate in such committees determine to a great extent the success of this initiative. We recommend that the chair should be the company CEO or one of the vice presidents. The committee should be composed of directors. It is important to note that very few companies manage to implement a PPM framework across all the departments; they are usually implemented within IT, research and development or technical departments. We have decided to implement a company-wide decision body, meaning that we will be breaking many silos and work closer together as one company.

- A **GATE APPROVAL PROCESS** that allows for effective portfolio monitoring and control of project funding. This process consists of

#	Initiative	Prioritity	S/T	L/T	ROI	RE	CR	PI	MA	Progress	Gate	Start	End
P1	CRM – Improve Relationship Management	1	√		10%	√	√			50%	G3	01/06/11	31/03/12
P2	Growth Culture	2		√	15%	√	√			25%	G1	01/10/11	31/06/12
P3	Sectoral Views – Define priority areas	3	√		7%	√		√		75%	G1	01/07/11	31/08/12
P4	Market Intelligence – Improve market watch	4		√	14%			√		50%	G5	01/03/11	31/03/12
P5	Private Equity Houses – Build the right alliances	5	√		-4%	√		√		75%	G4	01/10/10	31/03/12
P6	Systems simplification	6	√		5%			√		0%	G0	01/01/12	30/06/13
P7	Implementation PPM software	7		√	6%	√	√			75%	G4	01/06/11	30/06/12
P8	New regulatory requirements	8	√		-10%				√	0%	G0	01/01/12	31/12/12
P9	Competency – Building the competencies	9		√	3%	√		√		50%	G4	01/06/11	31/03/12

R C Q B



RE: Revenue Enhancement / CR: Cost Reduction / PI: Performance Improvement / MA: Mandatory
R: Resources / C: Cost / Q: Quality / B: Benefits

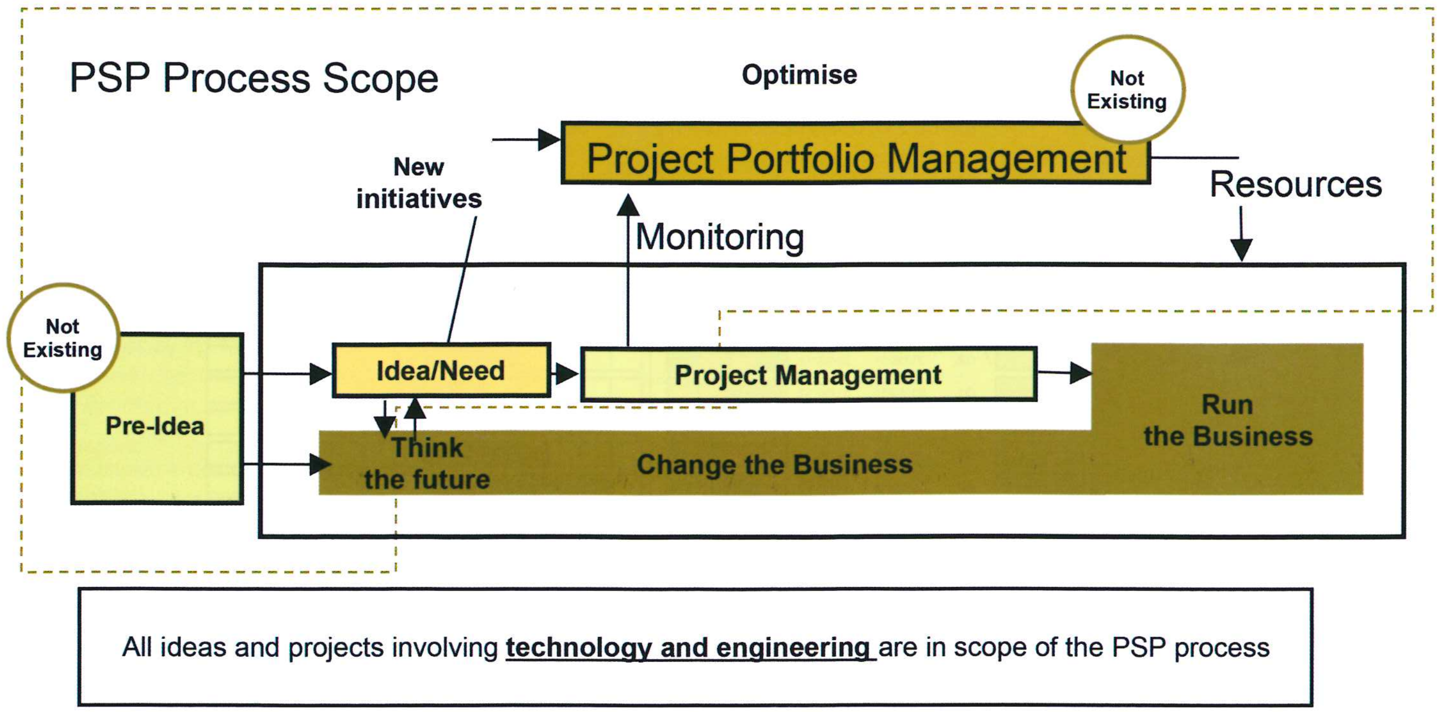
In our company we talk about two different dimensions and types of activities, running-the-business (RtB) and changing-the-business (CtB). The RtB is priority and brings the short-term returns to the company, although it provides us with limited growth options. The CtB are the initiatives that, if successful, will bring significant growth to the company, yet there is high uncertainty and it is not sure if any benefits will be achieved. Academics refer to this phenomenon as exploiting current capabilities and existing assets, and exploiting future capabilities and assets. You can find out more about this phenomena in the book, *The Focused Organization.*

establishing three to five standard phases for a project's lifecycle. For example, feasibility, initiation, planning, execution and close. At the end of each phase, project feasibility is evaluated and funding is released for the following phase only. If a project is not progressing according to plan, if priorities of the business have changed or if the market has evolved, the gates give top management an opportunity to adjust or to cancel the project before more resources are wasted.

- A **METHOD FOR MONITORING THE EXECUTION OF THE STRATEGIC ROADMAP**, which consists mainly of regular reports to top management on the progress of the prioritised projects. If the strategic roadmap is following the plans, the strategy side of the change-the-business dimension is on track. These regular reports also help management to quickly react to market changes and to supervise the pipeline of new projects.

- A **PROCESS FOR CAPTURING THE SYNERGIES AND THE BENEFITS** of the change-the-business dimension. Although one of the major issues with projects is that the benefits are difficult to track, due primarily to their lack of ownership, the difficulty of measuring them and the long time span (for some projects, benefits can be achieved only five years after the project has been completed). To avoid these issues, we recommend implementing the benefits-tracking process that we used when we integrated the last company we acquired. During an acquisition, synergies are linked to specific milestones in the integration plans. When a milestone is reached that has synergies attached to it – for example, the closure of some mobile retail shops – then the benefits can be calculated and compared to the plans. The strategic roadmap has to include these 'synergies delivering' milestones that are attached to specific returns even if the project has been completed. By doing so, management has a way of monitoring the benefits of the change-the-business dimension.

THE PSP PROCESS



THE PSP PROCESS

The Project Selection and Prioritisation (PSP) process is part of the implementation of the project portfolio management (PPM) framework. Implementing a standard-based, structured and company-wide PPM framework in a big company is a significant challenge as it will change the way the company works in many areas. This is why, at first, we focused on the project selection and prioritisation process and decided to limit the scope to the projects having a significant impact on technology and engineering.

The selection and arbitration will focus on the budget of IT, engineering, infrastructure and facilities, taking into account the capital and operational capacity of those entities, which are often in high demand as most of the projects in telecoms need this kind of expertise.

A fair and objective allocation of resources to new or existing projects relies on a proper and objective knowledge and assessment of their main properties. That is the objective of the PSP. For each new project idea or project demand, a simple form has to be completed homogeneously across the company. This form is produced through a standard process involving all the entities contributing to the potential project. This will provide the necessary data to decide about the opportunity of launching a project and to prioritise it among the other new requests as well as the on-going projects.

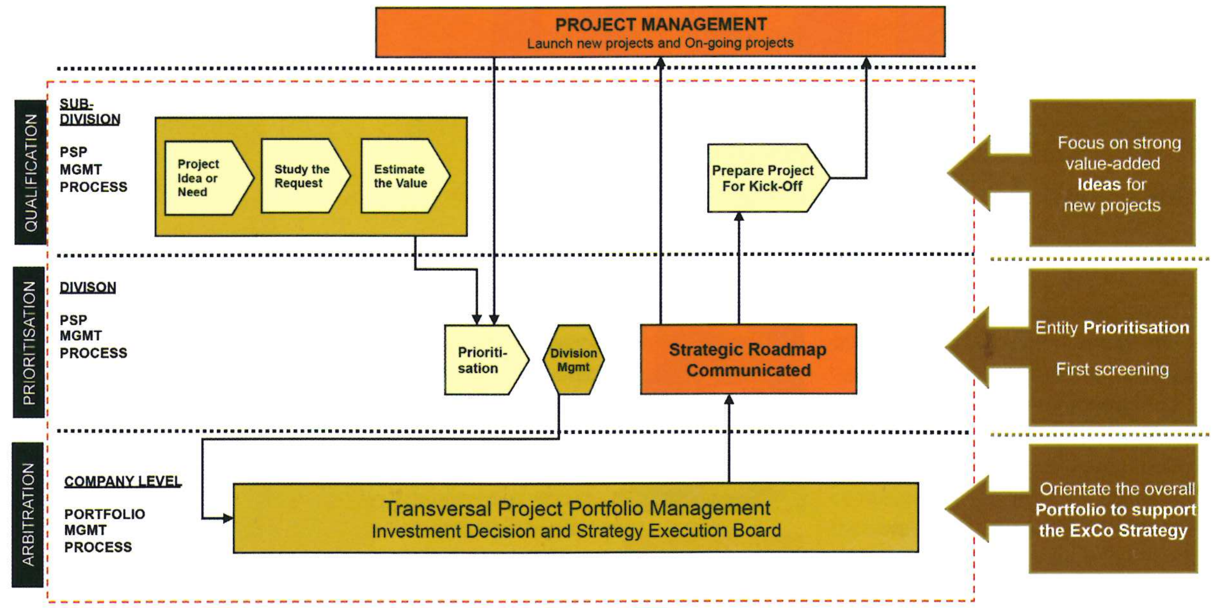
It is important to highlight that a project is a dynamic concept: as it progresses along its life cycle, the initial parameters (costs, benefits, duration and scope), used when deciding to launch it, usually change over time. These changes may have an impact both on the profitability of the project (either because the costs appear higher than expected, or because the benefits appear lower than expected) and on the other projects (because the overall budget and capacity constraints). To manage those changes, on-going projects are an important part of the PSP process.

As shown in the graph below, PSP is a three-layer process:

1. QUALIFICATION
The idea generation process managed by the division requesting a project, along with the involvement of all the divisions whose collaboration will be necessary to realise it (contributors).

2. PRIORITISATION
A first level of prioritisation and arbitration within each division for the ideas it requests, depending on the importance of the projects.

3. ARBITRATION
The third layer is called transversal project portfolio management where the ideas from all the entities are collected, challenged and finally arbitrated by a new governance body called the IDSE board. The IDSE committee is chaired by the vice-president of the company and gathers the heads of all the business lines and main functions, the CIO, the CFO and the secretary general, representing the smallest functions. The decisions of the IDSE committee (strategic roadmap) have to be approved by the executive committee. After the ratification of the executive committee, the decisions are translated into budget allocations by the management accounting team.



There is a theory which says that if you have between one to three strategic projects, you have good chances of achieving all three. If you have between four and 10, you will most likely only succeed with two. And if you have more than 10, there are high chances that you will not achieve any of them. Therefore we recommended having three strategic initiatives.

LESSONS LEARNED

- PSP has to remain a high-level and light process. PSP should not become heavy or tedious.
- A communication and training plan to support the change has to be developed and provided across the entire company to ensure consistency in the application of the new processes across the entire organization.
- PSP is about involving all parties (requesting entities and contributing entities) from the very beginning. Experience of many past projects showed us that important parts in the back end processes were forgotten or heavily underestimated as the impact was not looked at by the requesting entity. This leads to delays, budget-overruns and many frustrations – the aim of the PSP is to work together from day one of an idea that is worth looking at.
- PSP is about all divisions who are contributing to a project being involved in the estimation of its cost.
- PSP is about an initial high-level estimation of potential projects to enable comparison and selection of the best ideas in our organisation. As such it is not about starting to perform certain steps in the projects – for example, preparation or elaboration – at an earlier stage.
- Arbitration in PSP will include the entire portfolio of projects. PSP will lead to the fact that running projects will also be subject to arbitration and thus potentially cancelled.