GOING THE DISTANCE

Measuring a portfolio's strategic success can help an organization deliver on its long-term business goals.

BY MATT ALDERTON

Creating an organizational strategy is like planning a road trip: The route is as important as the destination. And for organizations trying to meet strategic objectives, portfolio management is the roadmap that can help them reach their goals.

"When organizations have goals in mind for what they want to achieve from a strategic perspective, a portfolio manager can work with them to get the projects and programs in place that will get them from point A to point B," says Jennifer Young Baker, PMP, PgMP, vice president and project portfolio manager at Bank of America, Charlotte, North Carolina, USA.

But a roadmap alone won't keep an organization on track. A portfolio manager should employ a suite of metrics to help executives guide the organization.

"We are the instrument panel," says portfolio manager Ricardo Viana Vargas, PMI-RMP, PMI-SP, PMP, chair, 2009 PMI Board of Directors, director of the project management practice group at the United Nations Office for Project Services, Copenhagen, Denmark. "We give valuable information for the decision-making process, but the decisions are made by those who have the power to decide."

PORTFOLIO VS. PROJECT METRICS

Tracking the right data in the right way can mean the difference between a strategic initiative's success and failure. To make sure they deliver the most relevant information, portfolio managers must first establish the difference between project and portfolio metrics, says Marna Schoeman, PMP, portfolio manager at Standard Bank Group, Johannesburg, South Africa.

"The metrics are different and have different objectives, although they have a common goal to measure success," she says. "Project metrics are tactical measures to track tactical objectives, and are used to measure success in terms of the agreed scope and the associated budget and timeline within the defined quality framework. Portfolio metrics are strategic measures to track strategic objectives. They're used to measure the success of achieving the business objectives through the implementation of projects."

SIMPLY PUT: Project metrics measure performance. Portfolio metrics measure benefits. While the former evaluate day-to-day progress against pre-established benchmarks, the latter take a longer view with a wider lens.

Simply put: Project metrics measure performance. Portfolio metrics measure benefits. While the former evaluate day-to-day progress against pre-established benchmarks, the latter take a longer view with a wider lens.

"Portfolio management is not as deep as it is wide," says Mark Dochtermann, PMI-SP, PMP, manager of portfolio strategy at Xerox State Healthcare, Sacramento, California, USA. "Project management is about doing projects the right way. Portfolio management is about doing the right projects."

"The portfolio is all about balancing demand with capability. You should perform detailed planning only for projects that you have the resources for completing."

—Mark Dochtermann, PMI-SP, PMP, Xerox State Healthcare, Sacramento, California, USA

MUST-HAVE METRICS

Portfolio metrics should be more about *prognosis* than *diagnosis*, says Mr. Vargas.

"In your personal life, maybe you want to buy a new car, take a trip and remodel your house. You don't have the money and time to do all three, so you need to decide on one," he says. "Portfolio management is how organizations decide what are the most important things for them to do based on their strategy, given their limited resources, limited money and limited time."

To facilitate the decision-making process, portfolio managers can look to five essential portfolio metrics:

1

PERCENT RESOURCE UTILIZATION

A portfolio consists not only of projects and programs, but also of the personnel that manage them. The percent resource utilization metric tells portfolio managers where human resources are deployed, which helps the organization decide whether it can execute new projects when they're proposed.

"It shows you how you are spending your resources to reach your objectives," Mr. Vargas says. "For example, say you have five people but you need 10, or you have five people and you're using just one. It shows if you are overusing or underutilizing your resources."

In her current position, Ms. Baker collects time reports from project staff each week and reviews her portfolio's percent resource utilization each month based on a four-week running average.

"When new projects come in, it allows you to know what resources you have available and, if necessary, what adjustments you need to make," she says.

While this metric offers valuable insights, Mr. Dochtermann believes that percent resource utilization can be more tactical than strategic. That's why he also closely examines work demand and resource capacity—portfolio metrics that express how much work the organization is asking from its project teams and how much work those teams can adequately take on, respectively.

"The portfolio is all about balancing demand with capability," he says. "You should perform detailed planning only for projects that you have the resources for completing."

2

BUSINESS VALUE REALIZED

At the project level, business value realized communicates how much value a project adds back into the business in terms of cost savings, additional revenue or increased customer satisfaction. Taken in aggregate at the portfolio level, it acts as a weather vane, telling the organization whether it's making the right investments at the right times.

"One dollar can be nothing and it can be everything," Mr. Vargas says. "With this one dollar you can generate two dollars. But if you use it to generate nothing, you are just throwing money out. This is a critical measurement of the success of your portfolio."

Calculating business value realized requires establishing clear and measurable expectations prior to the start of every project, then determining the degree to which those objectives were met after the project is complete.

"The results can be used by executive stakeholders and project sponsors in future project decisions and prioritization of projects," says Ms. Schoeman, who stresses the importance of long-term post-implementation benefits tracking. "The implementation of this metric is only effective if the actual calculation of the benefit is substantiated."

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3

PROJECT SUCCESS RATE

Project managers typically calculate project success rate largely based on the extent to which they delivered the project within schedule, budget and scope. Portfolio managers calculate it as the percentage of projects in the portfolio that delivered the promised benefits.

"If you measure project success based on scope, schedule and budget, then you can say, 'These projects were successful because they delivered on time, for the right amount of money, and they delivered the required functionality,'" Mr. Dochtermann explains. "But let's say you did the wrong project. You did it right, but the impact it had was relatively small to the business. For that reason, success rate has to be tied not just to the project's success, but to the portfolio perspective."

Project success rate is closely related to business value realized, with one important difference: The former encapsulates success, while the latter quantifies it. In both cases, "success" must be clearly defined.

"Before you can measure success rate you need to make a clear point of what success is," Mr. Vargas says. "If you're building a road, for instance, what is a nice road? Are you talking about a five-lane, high-speed highway or a non-paved local road just to connect two remote villages? Because expectations are quite different."

"Strategic objectives should be listed and mapped to the main business capabilities within a portfolio. Each project will then be aligned to improving a specific capability....A project should then deliver against a capability to increase the maturity of that capability."

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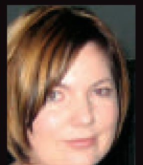

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ALIGNMENT WITH STRATEGIC OBJECTIVES

For a portfolio to truly help an organization succeed, the projects and programs it contains must align with strategic goals.

"At Bank of America, we're not allowed to do projects unless they align with corporate and divisional objectives," Ms. Baker says.

Alignment with strategic objectives tells portfolio managers and executive stakeholders the percentage of projects in their portfolio that are in sync with at least one of the organization's strategic objectives. This measurement ensures that project teams are focused only on work that advances the organization's progress toward stated goals. Work that doesn't—even if it delivers business value—is deemed out of alignment.

"Strategic objectives should be listed and mapped to the main business capabilities within a portfolio," Ms. Schoeman explains. "Each project will then be aligned to improving a specific capability, which will reflect on alignment of the portfolio to achieve the strategic objectives of the business unit. A project should then deliver against a capability to increase the maturity of that capability."

5

RISK APPETITE

At the project level, risk appetite influences how a project is managed—for instance, how resources are allocated. At the portfolio level, however, it drives whether an organization decides to do the project in the first place.

"In a project environment, I'm talking about appetite for a specific approach to the project," Mr. Vargas explains. "In the portfolio analysis, I'm talking about appetite for more risky projects."

Assessing risk across all projects in a portfolio helps organizations determine which projects have the highest likelihood of delivering the most value. With that in mind, Ms. Schoeman says, risk appetite should be considered in the context of strategic planning.

"This metric illustrates the confidence level across the portfolio in achieving strategic objectives," she says. "It illustrates to executive stakeholders the degree of risk management maturity by either being a conservative or aggressive portfolio. It also allows stakeholders a view of potential uncertainties and their impact on achieving strategic objectives. Finally, it allows for executive decision-making when a risk-adjusted schedule is presented to counteract uncertainties."

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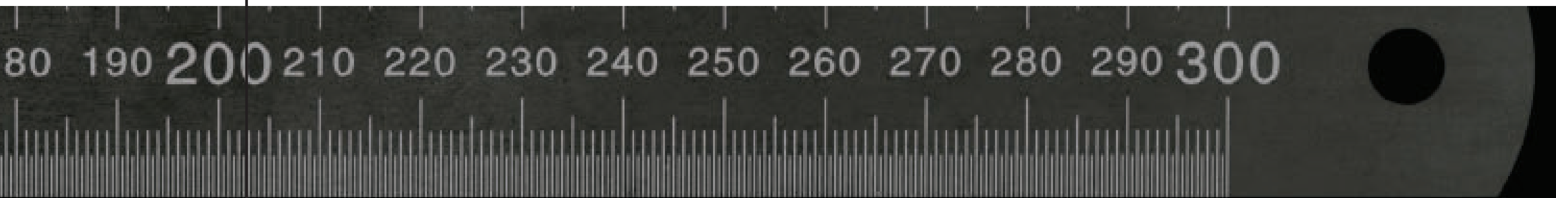

MAKING METRICS MATTER

While each metric measures one piece of the portfolio's health, how portfolio managers react to the complete picture is what ultimately defines a portfolio's success.

"The portfolio manager must constantly make course corrections to defined projects as the business goals and objectives change to maintain alignment of the portfolio to the company's goals and objectives," Ms. Schoeman says.

In that way, a project portfolio is a lot like a stock portfolio. The reason to collect metrics in the first place is to evaluate in real time the portfolio's performance, then calibrate it by periodically adjusting—adding, deleting or modifying—individual holdings.

"As portfolio managers, first we use a set of criteria to decide what projects we should do. After that, we monitor them like stocks, because maybe we'll get new information that will cause us to reshape or maybe even stop a project," Mr. Vargas says. "It's more art than science—some companies do it every day, some every quarter, some every six months—but you should definitely re-balance your portfolio on a regular basis." **PM**