WHITEPAPER

An essential challenge for enterprises in today's globalized world is their growing complexity and size. This makes it increasingly difficult for the organizational units and teams to keep an aligned direction. Single regions, countries, departments etc. have different requirements and thus individual plans. Nevertheless they need to be aligned to pursue the same goal. Otherwise the organization risks a **strategic vacuum**. Therefore the whole enterprise needs to follow a **common strategy** to achieve common goals. The means to realize the strategy are projects, largely determining the corporate transformation. Due to limited resources, not all projects which are in the pipeline can be executed. Consequently, there is a vital need to understand which projects maximize the benefits for the organization. In practice, the question is:

„How to select the optimal project portfolio"

Our approach to answer this question is divided in two levels. A **strategic level**, continuously translating the strategic drivers of the organization into concrete measures, and **an operational level**, executing the project portfolio selection and evaluating the projects against these strategic measures.

The strategic level

... focuses on the translation of the strategic drivers into operational measures. The strategic drivers can be separated into the following areas:

- **Economic value** as the main goal for profit organizations. How strongly does the project contribute to profitability and other KPI's?
- Strategy fit operationalizes intangible strategic goals into project measures.
- Risk considers the project contribution to risks and opportunities of the organization.
- **Interdependency** analyses how the projects affect each other and how this can or should influency their order of implementation.
- **Compliance** considers, whether projects must be implemented due to regulatory requirements.

For each company, these areas can be defined completely differently, depending on how important short-term profit is, what the values of the company are, how risk averse the company is, what industry the company belongs to, etc..

Although these criteria will vary between different companies, in every case the same success factors play an important role:

The corporate strategy is driven by the senior management. They define the company's vision, values and overall goals. This can vary from ten key points to a very detailed **strategy implementation roadmap.** The better the business strategy is formulated and communicated, the better the project selection can be justified. If there is a lot of space for interpretation, or targets are not concrete, it is way harder to implement measures. Openly communicating the portfolio selection criteria and the decision taken has a positive effect on the acceptance and support within the organization—vitally influencing implementation success. Otherwise there is a risk that people start to run hidden projects which do not follow the portfolio selection process. This would make the process ineffective and irrelevant.

Also, the **measures need to be tailored to an acceptable level**. They need to be as simple as possible, but also as detailed as necessary. Small companies may only need 5 criteria to be evaluated for a project, whereas large companies may need more criteria. Furthermore, not all projects have the same characteristics. Global transformation programmes will always have a way higher turnover than small initiatives. But on the other hand, they are also way more complex and risky. To address this, they can be evaluated seperately towards each other and run against different budgets, or the measures may be relative to the project size.

No matter how good the defined measures are, the quality of estimates may vary from very acurate to the total opposite. Especially at the beginning, when there is only a project idea, so many variables can completely change the project validation. So, **the evaluation is not only a one-step estimate**, but should be improved step-by-step.

Training and experience is also a factor which has a crucial influence on the accuracy of the estimates. People who never did a project validation before of course cannot be as precise as experienced project managers or specialists. But training them can help building a base, and also learning by doing will improve the quality of people's estimations. So it may be hard at beginning to put additional effort in pre-project evaluations to have an aligned portfolio. But if people are continuously made aware of the benefits of project portfolio management and if they get used to the process, the effort will go down whereas the quality and value will grow.

Lastly, the **review of the real benefits after project realiztion** is also essential. This gives an indication of how qualitative the estimates were. People will take portfolio management more serious and the results can be used as lessons learned how to improve the effectivity and efficiency of project portfolio management.

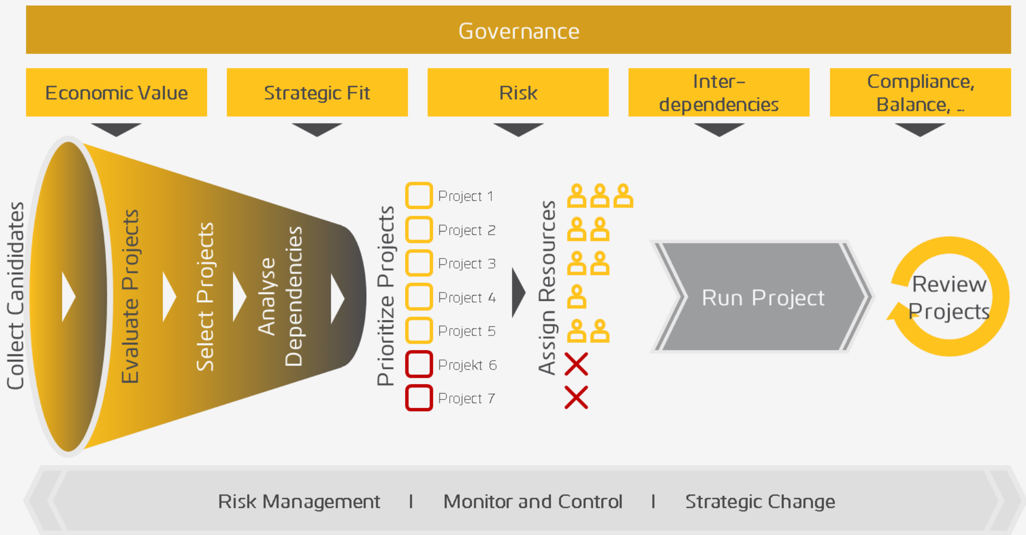
Let's see what that means for the operational level.

To ensure, that the projects are correctly evaluated and selected, adequate organizational structures need to be implemented. This includes processes, roles and responsibilities, and a governance to ensure that the process results align with the corporate strategic targets. The portfolio selection process can be divided into three parts.

The key part is the **project selection process**, managed by the portfolio manager. It starts with collecting project ideas as candidates for the portfolio. These will be evaluated by the project owners against the defined criteria, as far as it is possible in the first step. Based on ratings, some project ideas will be sorted out, and the remaining candidates will be further analysed, refining the estimates, checking the projects for interdependencies and duplicates etc., delivering an overall rating. The results of the analysis will now be presented in the executive portfolio board, the instance deciding upon the final ranking of the portfolio candidates, also considering other soft strategic factors. Projects will be consequently executed following their ranking, until there are no resources left.

As a second operational part, the **post implementation processes**, measuring the achievements and results of the projects versus the strategic targets, are equally essential.

Thirdly, **supporting processes**, risk management, monitoring & control, as well as the continuous adaption of the measures towards changing strategic goals are of high importance.



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ariscon has proven experience in portfolio management through many projects at different clients. We define and implement the portfolio management solution and develop project evaluation tools for all different types of projects and initiatives. We integrate portfolio management into project management, IT Service Management and also into strategic planning. We have predefined tools and templates to accelerate the implementation of a portfolio management system.

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