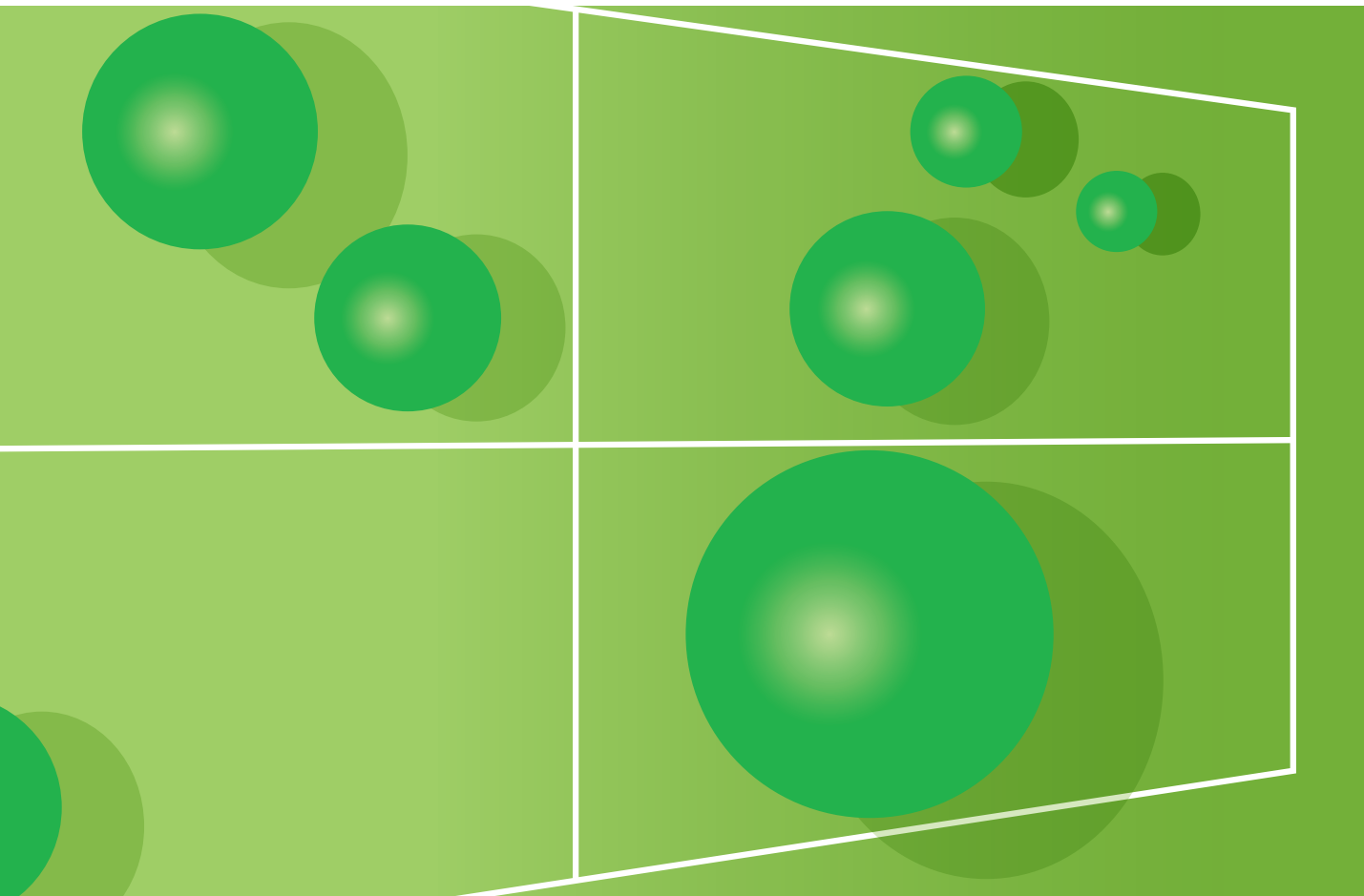


# Portfolio Management

## A practical guide



# **Portfolio Management**

**A practical guide**

Association for Project Management  
Ibis House, Regent Park  
Summerleys Road, Princes Risborough  
Buckinghamshire  
HP27 9LE

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# About this guide

This guide illustrates how portfolio management is a key mechanism in enabling an organisation to optimise delivery of its strategic goals, maximising value, and do so in the required time frame.

The guide is designed to serve three main aims:

- to promote awareness of, and outline good practice in, portfolio management for the practising or developing portfolio manager or portfolio office manager. All organisations can learn from each other, but ultimately each needs to build its own version of portfolio management practice that addresses their own business need;
- to provide a benchmark for portfolio managers and the portfolio management community to assess their own organisation's maturity in the discipline;
- to stimulate new thinking and contribute to the development of portfolio management practice.

The guide is divided into four main sections:

**Section 1: Introduction to portfolio management:** This section explains what portfolio management comprises and why it is important to organisations. It outlines the kind of situations that an organisation might encounter where introducing portfolio management could bring significant benefits. This section concludes with examples of where portfolio management might fit within an organisation's structure; there is no 'one-size-fits-all' with portfolio management.

**Section 2: Adopting portfolio management:** This section deals with how portfolio management links to the existing organisational processes, such as strategic planning, stakeholder engagement, risk management, return on investment (ROI) and benefits. It also considers the different delivery methodologies. It shows how the purpose of portfolio management is to optimise delivery of the corporate strategy and goals, to ensure that all projects and programmes are directly contributing to achieving those goals.

**Section 3: Portfolio management core processes:** This section looks in depth at constructing the portfolio, including any business-as-usual (BAU) and other initiatives within its scope, and how it should be managed. It shows how to ensure that the portfolio is on track to deliver its benefits and the strategic goals, how to consider any adjustments, and mitigate portfolio-level risks. It includes the role of portfolio reviews (by the executive committee overseeing the portfolio), what to report and how to assess whether the portfolio comprises the most effective set of projects and programmes to achieve delivery of the strategic goals in the appropriate timeframe.

**Section 4: Implementing portfolio management:** This section illustrates how an organisation will need to clearly and unambiguously identify what will deliver value for them, and then adapt the practice of portfolio management to their needs. It suggests treating the introduction of portfolio management as a project in itself and shows how to deal with a number of key challenges, such as the cultural context. For example, organisations may need to put in place an executive-level sponsor to support the portfolio manager, with overall accountability for the success of the portfolio.

The APM Portfolio Management Specific Interest Group (SIG) has acquired many examples from experienced practitioners of good and best practice, collected at our SIG events, annual conferences and from our committee and members. We are pleased to be able to bring all of this together into a single guide and we hope it will serve our SIG members, and non-members, well.

We hope you enjoy reading the guide and that it contributes to your understanding of portfolio management, as well as that of your organisation, and so meets our SIG aim of helping organisations achieve their corporate strategy or strategic intent.

Please email any comments, questions or suggestions to:  
[portfoliosig@apm.org.uk](mailto:portfoliosig@apm.org.uk)

Stephen Parrett and Steve Leary, co-chairs, APM Portfolio Management SIG,  
2017–2018

Lynne Ratcliffe and Steve Leary, co-chairs, APM Portfolio Management SIG,  
2018–2019



# Executive summary

Mature portfolio management practices can deliver greater value to an organisation through more predictable and more efficient achievement of its strategic goals. It does this by helping to guide the board to invest money and resources in the most appropriate projects and programmes in the context of their strategic goals.

Key to the success of portfolio management is the relationship between strategy and implementation, with strong alignment between the organisation's strategic goals and those of the portfolio. For this reason, portfolio management should be seen as an integral part of the business planning, delivery and benefits realisation cycle.

There are many different approaches to portfolio management, and the one adopted will depend on the needs and context of your organisation. The one thing all approaches have in common is the importance of engaging stakeholders – particularly the senior executives, who are by definition the sponsors of the strategic portfolio.

Portfolio management contributes to organisations in many crucial ways:

- **Provides a focal point for strategic goals.** Portfolio management should be complementary to the overall management of the organisation; it is not an additional bureaucracy. The board sets the vision for the organisation, the corporate mission and the strategic goals, and how they expect those goals to be achieved. Without clearly defined organisation goals, the portfolio helping to achieve them cannot succeed. Decisions to start, stop and continue projects are based on these goals, and only these goals.
- **Ensures the prioritisation of the goals, with prioritisation rules for projects and programmes that are clear and unambiguous.** Clearly defined and prioritised goals are essential for decision making at a portfolio level, which then leads to more transparent and realistic decisions. Portfolio management helps executives to articulate the prioritisation criteria which contributes to improved decision making. For example, if all goals are 'high priority' then in reality none are, and decisions will be taken on other factors.

- **Helps ensure the whole board and executives are fully behind the approach, are sponsoring the portfolio and are actively championing portfolio management and empowering a capable team.** Ideally, everyone from the very top, through middle and junior management of the organisation needs to champion the strategy and the portfolio to ensure 'buy in' from the whole workforce to a structured portfolio management approach. An honest and collaborative style will build and engender trust within the management team across the portfolio and organisation.
- **Provides the capability to assess all key change factors.** It takes into account the constraints of opportunity, threat, resource availability, affordability, customer impact and the organisation's capacity to absorb and manage change. In doing this, it enables the managing of projects and programmes at a collective level, through effective corporate governance, engagement of key stakeholders, adherence to key processes and the optimisation of limited resources and dependencies.
- **Considers in-flight projects and programmes and business as usual (BAU) in the same way and ensure full alignment to the strategic goals.** Portfolio management should always aim to balance competing demands from within and outside the scope of the portfolio to ensure business success. Decisions taken on balancing BAU and change, and allocation of resources must be measured against those same strategic goals. Effective portfolio management is a collaborative partnership across the organisation. The core message is to prioritise and keep prioritising throughout the portfolio life.
- **Ensures 'tactical' projects contribute to the strategic goals – if they don't, don't do them.** There will always be a place for tactical projects within a portfolio, but they all need to take the organisation in the right direction towards one (or more) of its strategic goals. Tactical projects take finite resources away from others delivering the strategic objectives, usually for immediate support to a short-term goal. Questions need to be asked as to whether the portfolio is correctly balanced and if the organisation really needs to do a project or piece of work. If the work is critical, ensure it doesn't render any other outcome impossible.
- **Embeds portfolio governance into the organisation's controls and makes it robust.** Additional governance is unnecessary provided an organisation has mature controls where portfolio governance can be aligned with the business planning and decision-making processes ensuring seamless

# 2

## Adopting portfolio management and the organisational context

This section deals with how portfolio management links to the organisational processes such as strategic planning, stakeholder engagement, risk management, ROI and benefits. It also considers the different delivery methodologies. Figure 1.2 provides a framework and overview of the processes.

Section 3 addresses the core processes that are more specific to portfolio management.

### 2.1 The strategic plan

The board sets the vision for the organisation, the corporate mission and the strategic goals, and how they expect those goals to be achieved. Depending on the organisation's structure, these may be devolved to a divisional level, or to a group of business areas or business units.

This strategic planning process defines what is required and determines the high-level plan to meet the targets set by the board, i.e. the goals and strategy. The portfolio management team works closely with the strategy group (or equivalent), plus the executives and business area directors and managers within the organisation, to develop the portfolio plan to achieve those goals.

#### 2.1.1 Goals and objectives

The corporate goals need to be framed with a clear focus on the changes required, and should include targets and metrics.

- The goals and strategy drive the changes. The task of the portfolio manager/function is to work with the management and planning teams to ensure that goals and objectives and the required strategies are understood and can be achieved.

## Portfolio Management

- The portfolio represents the organisational changes necessary to meet the strategic goals, and hence will include how various programmes, projects, and business unit plans contribute to those goals.

Portfolio management is an integral part of the strategic planning process and supports the 'how' of strategic delivery and implementation through such things as modelling possible portfolio outcomes to provide various forward views for consideration. These models will include current, in-flight projects as well as new contenders, and should provide views on the potential impact on business-as-usual (BAU) or operational processes that will be already in place and delivering.

Commercial considerations will determine the level of investment and flexibility for a given period, and hence will influence how soon the goals might be achieved.

### 2.1.2 Process and organisational alignment and embedding

The portfolio will be managed to meet the strategic goals and optimise the overall ROI and benefits, and therefore will ensure that the objectives of the business units' and functions' projects and programmes are directly contributing to, and fully aligned with, those strategic goals. The projects and programmes will themselves be planned and managed in the usual way using 'standard' project and programme management and controls. Although the portfolio management function does not manage the individual projects and programmes, it will set the priorities and influence areas such as resource allocation and timeline planning.

The overall planning process also considers BAU or operational plans – i.e. the total investment (revenue and capital) that the organisation is making.

Budget planning and portfolio planning processes are often iterative, looking at business demand, capability, internal and external risks and pressures and funding availability. A high-level portfolio plan can help determine what can realistically be achieved and identify the resources and skills required. As options are reviewed and agreed the portfolio and associated budgets can be set, together with outline budgets for subsequent periods and the lifetimes of the projects and programmes. The amount of change also needs to be considered so that the business can absorb the planned changes while continuing to operate.

An annual cycle is unlikely to be frequent enough for the portfolio reviews and several organisations have moved to a six-monthly or quarterly cycle. Such reviews may also be triggered by market or other major events and lead to re-alignment of investment and resources outside the 'normal' financial and portfolio planning cycles.

# 4

## Implementing portfolio management

This section will cover the drivers and main steps to building, developing and sustaining a portfolio management capability within an organisation.

Portfolio management includes defining portfolio governance, clear roles, responsibilities, accountabilities and reporting structures that support decision making. Introducing it will have a significant impact on the organisation and will fundamentally alter how change is managed. It is therefore likely to require a change in the organisation's behaviours and culture.

Portfolio management has many aspects, and an organisation will need to clearly and unambiguously identify what will deliver value for them, and adapt the practice of portfolio management to their individual needs. This will require careful management, coordination and capable resources. Portfolio management is most effective when driven by business goals and strategy, either at an organisation or business area level, although it has often been introduced via the IT function.

One of the hardest things about introducing portfolio management to an organisation or system is the mirror that is held up to the executives, and dealing with the behaviours of people as a result. Organisations that have shared their experiences have found that treating the introduction of portfolio management as a project and adopting a change management approach helped them achieve a successful outcome.

### **4.1 Business drivers for portfolio management – understanding the business imperative**

There are many reasons why an organisation might decide that portfolio management is required. Often it will be introduced in response to issues resulting from the actual or perceived failure of current processes, or it might

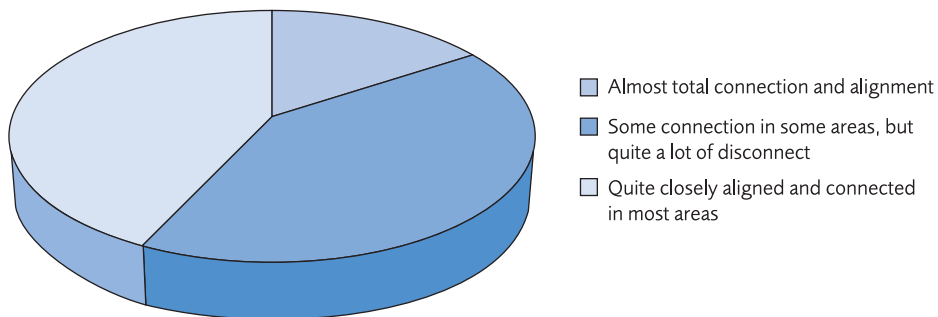
even be brought in during a crisis, where the business needs to make a radical reappraisal of its change initiatives and performance.

There are several structured change and project methodologies that can be used and, as with any project, change management needs to be integrated into the approach.

### 4.1.1 Getting portfolio management started

The drivers for change will manifest themselves in many ways, such as:

- a desire to implement a major transformational change across the organisation;
- a corporate review of strategy implementation, highlighting significantly disconnected change management and mismatch between expectations and reality;
- a senior executive discovering from their peers that alternative, more effective, ways of achieving the corporate goals and managing their portfolio should be explored;
- awareness by new management that there are better ways of achieving the strategy, and managing delivery and benefits through portfolio management;
- an enforced reassessment of the investment priorities, for example due to a takeover or a major change in the market or environment;
- the existing planning, strategy or portfolio team being unable to satisfy executive questions about the effectiveness of the organisation's investment, where it is being spent, what benefits are being achieved and what the ROI is. Several organisations have reported being surprised at the findings once they carry out an inventory of in-flight projects.



**Figure 4.1** Strategy and portfolio alignment

# Appendix

## Summary roles and responsibilities

**Table A1** The roles involved in portfolio management, how they contribute and the value they deliver

Roles	Contribution to portfolio management	Value received or delivered
Board of directors	<ul style="list-style-type: none"><li>■ Portfolio sponsor</li><li>■ Sets and communicates the strategic goals for the organisation</li><li>■ Prioritises the corporate mission and strategic goals</li><li>■ Sets the proportion of the total investment/funding that is for 'change' and for 'operations or business as usual'</li><li>■ Allocates investment/funding to the portfolio/s</li><li>■ Sets the risk profile, or risk profile limits, for the overall portfolio.</li></ul>	<ul style="list-style-type: none"><li>■ Achievement of the organisation's goals</li><li>■ Increased ROI and benefit</li><li>■ More effective and efficient achievement of the strategic goals</li><li>■ Greater visibility of the benefits expected from change investment</li><li>■ Improved confidence that the investment is optimised to achieve its strategic goals.</li></ul>

# Glossary

Agile	A family of development methodologies where requirements and solutions are developed iteratively and incrementally throughout the life cycle.
Assurance	The process of providing confidence to stakeholders that projects, programmes and portfolios will achieve their objectives for beneficial change.
AXELOS, P3M3	Examples of externally available models to assess the maturity of portfolio management within an organisation. AXELOS is a joint venture company, created in 2013 by the Cabinet Office on behalf of Her Majesty's Government (HMG) in the UK and Capita plc, to manage, develop and grow the Global Best Practice Portfolio.
Balanced portfolio	A point in the portfolio life cycle where the component projects and programmes are balanced, for example, in terms of strategic alignment, overall risk, resource usage, cash flow and impact across the business. These attributes are considered in the light of data available and confidence.
Benefit	A positive and measurable impact of change.
Benefits management	The identification, definition, planning, tracking and realisation of benefits.
Benefits realisation	The practice of ensuring that benefits are derived from outputs and outcomes.
Bi-modal project management	Bi-modal project management is changing how projects are executed. Instead of having to choose one practice over another, it's about implementing more than one method across an organisation – allowing the portfolio manager to choose whichever methodology best suits each project.
Board (programme or project)	A body that provides sponsorship to a project or programme. The board will represent financial, provider and user interests.
Board (executive)	An executive body that oversees the governance of a portfolio, and provides direction on strategic goals, priorities, risk appetite and investment levels.
Business case	Provides justification for undertaking a project, programme or portfolio. It evaluates the benefit, cost and risk of alternative options and provides a rationale for the preferred solution.



## Association for Project Management

Ibis House, Regent Park  
Summerleys Road  
Princes Risborough  
Buckinghamshire HP27 9LE

**Tel. (UK)** 0845 458 1944  
**Tel. (Int.)** +44 1844 271 640  
**Email** info@apm.org.uk  
**Web** apm.org.uk

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