# Contents

Preface: Why Another Book on Project Portfolio Management? ..................... xv
About the Author ........................................................................................................ xxi

## SECTION I  THE THEORY

1  Introduction to Project Portfolio Management ........................................3
   Historical Case Study: Ibaraki Airport ..........................................................3
   Sounds Comparable to Your Company? .........................................................4
   PPM: A Quick Overview ....................................................................5
      PPM Defined ...........................................................................5
      The Three Pillars of PPM .........................................................8
      What Happens without Project Portfolio and Proper Resourcing? ......14
   What Is Happening in the Industry? .........................................................16
   Conclusions ..............................................................................18
   Summary ..................................................................................19

2  The Three Pillars of Project Portfolio Management ..........................21
   Introduction ...............................................................................21
   How to Determine Project Value? ......................................................21
      Financial Models ................................................................22
      Scoring Models ..................................................................24
   How to Balance Portfolios? ............................................................29
   What Is Strategic Alignment? ..........................................................34
      Top-Down Approach ................................................................36
      Bottom-Up Approach ................................................................38
      Top-Down, Bottom-Up Approach .............................................39
   How It All Works in Real Life ...........................................................40
      Joker Project Concept ..............................................................45
   Summary ..................................................................................47

Click here to order Project Portfolio Management in Theory and Practice: Thirty Case Studies from around the World © 2017 by Taylor & Francis Group, LLC
3 Strategic Resource Estimation for Project Portfolios ................. 49
   Introduction ................................................................................... 49
   Improving Your Estimate Accuracy with Wideband Delphi and PERT .... 51
      Wideband Delphi ........................................................................... 51
      Wideband Delphi “Light” ................................................................. 53
      Program Evaluation and Review Technique ..................................... 55
   Other Things to Consider .................................................................. 57
      How to Improve Your Estimates? ...................................................... 57
      Common Estimation Oversights ...................................................... 58
   Sample Scenario Analysis ................................................................ 58
   Summary .............................................................................................. 64

SECTION II THE APPLICATION: INDUSTRY CASE STUDIES

4 Project Portfolio Management in the Pharmaceutical Industry .......... 67
   Pharmaceutical Sector Overview ....................................................... 67
   Pharmaceutical Sector Case Studies ................................................ 69
      Introduction ...................................................................................... 69
      European Pharmaceutical Company A .............................................. 70
         Strategy ......................................................................................... 70
         The Scoring Model ......................................................................... 70
         Portfolio Balance ........................................................................... 73
         Strategic Alignment ....................................................................... 74
      European Pharmaceutical Company B .............................................. 75
         Strategy ......................................................................................... 75
         The Scoring Model ......................................................................... 75
         Portfolio Balance ........................................................................... 78
         Strategic Alignment ....................................................................... 80
      European Pharmaceutical Company C .............................................. 80
         Strategy ......................................................................................... 80
         The Scoring Model ......................................................................... 80
         Portfolio Balance ........................................................................... 82
         Strategic Alignment ....................................................................... 82
      Summary .............................................................................................. 83

5 Project Portfolio Management in the Product Development Industry ........ 85
   Product Development Sector Overview ............................................. 85
   Product Development Sector Case Studies ......................................... 86
      Introduction ...................................................................................... 86
      Company A: Bearings Manufacturer ............................................... 87
         Strategy ......................................................................................... 87
         Scoring Model ............................................................................... 87
| Contents |
|------------------|----------|
| Portfolio Balance ................................................................. 90 |
| Strategic Alignment ................................................................. 90 |
| Company B: Software Producer .................................................. 91 |
| Strategy ....................................................................................... 91 |
| Scoring Model ............................................................................ 91 |
| Portfolio Balance ................................................................. 94 |
| Strategic Alignment ................................................................. 94 |
| Company C: Rail Transport Company ......................................... 95 |
| Strategy ....................................................................................... 95 |
| Scoring Model ............................................................................ 96 |
| Portfolio Balance ................................................................. 98 |
| Strategic Alignment ................................................................. 99 |
| Company D: Medical Equipment Manufacturer ............................ 99 |
| Strategy ....................................................................................... 99 |
| Scoring Model ............................................................................ 99 |
| Portfolio Balance ................................................................. 101 |
| Strategic Alignment ................................................................. 102 |
| Company E: Food Packaging Company ....................................... 102 |
| Strategy ....................................................................................... 102 |
| Scoring Model ............................................................................ 102 |
| Portfolio Balance ................................................................. 105 |
| Strategic Alignment ................................................................. 105 |
| Company F: Satellite Operator .................................................. 106 |
| Strategy ....................................................................................... 106 |
| Scoring Model ............................................................................ 107 |
| Portfolio Balance ................................................................. 109 |
| Strategic Alignment ................................................................. 109 |
| Company G: Clothing Manufacturer ........................................... 110 |
| Strategy ....................................................................................... 110 |
| Scoring Model ............................................................................ 110 |
| Portfolio Balance ................................................................. 111 |
| Strategic Alignment ................................................................. 111 |
| Summary ...................................................................................... 112 |

6 Project Portfolio Management in the Financial Industry .......... 113

Financial Sector Overview .......................................................... 113

Financial Sector Case Studies ..................................................... 116

Introduction .................................................................................. 116

Eastern European Bank A .......................................................... 116

Strategy ....................................................................................... 116

Scoring Model ............................................................................ 117

Portfolio Balance ................................................................. 119

Strategic Alignment ................................................................. 119
Western European Bank B .......................................................... 120
Strategy ...................................................................................... 120
Scoring Model ........................................................................ 121
Portfolio Balance .................................................................... 123
Strategic Alignment .................................................................. 123
North American Brokerage Company C ...................................... 124
Strategy ...................................................................................... 124
Scoring Model ........................................................................ 124
Portfolio Balance .................................................................... 126
Strategic Alignment .................................................................. 126
Eastern European Bank D .......................................................... 128
Strategy ...................................................................................... 128
Scoring Model ........................................................................ 128
Portfolio Balance .................................................................... 132
Strategic Alignment .................................................................. 132
Summary .................................................................................. 132

7 Project Portfolio Management in the Energy and Logistics Industries .......................................................... 135
Overview of the Energy and Logistics Sectors .............................. 135
Energy and Logistics Sector Case Studies .................................... 136
Introduction ............................................................................... 136
Energy Company A: Power Trader ............................................... 137
Strategy ...................................................................................... 137
Scoring Model ........................................................................ 137
Portfolio Balance .................................................................... 139
Strategic Alignment .................................................................. 140
Energy Company B: European Electric Utility ......................... 140
Strategy ...................................................................................... 140
Scoring Model ........................................................................ 140
Portfolio Balance .................................................................... 143
Strategic Alignment .................................................................. 143
Energy Company C: Regional IT Department of a Global Oil and Gas Producer ........................................... 144
Strategy ...................................................................................... 144
Scoring Model ........................................................................ 145
Portfolio Balance .................................................................... 145
Strategic Alignment .................................................................. 147
Energy Company D: Eastern European Electricity Company ........ 147
Strategy ...................................................................................... 147
Scoring Model ........................................................................ 148
Portfolio Balance .................................................................... 150
Strategic Alignment .................................................................. 151
## Contents

Logistics and Energy Company A: The IT Team ........................................ 152  
   Strategy ......................................................................................... 152  
   Scoring Model ............................................................................. 152  
   Project Analysis ......................................................................... 155  
   Portfolio Balance ......................................................................... 156  
   Strategic Alignment ...................................................................... 156  
   Summary ....................................................................................... 157  

8 Project Portfolio Management in the Telecommunications Industry ........................................ 159  
   Telecommunications Sector Overview ........................................ 159  
   Telecommunications Sector Case Studies ................................. 161  
       Introduction ............................................................................... 161  
       Eastern European Mobile Provider A ........................................ 161  
           Strategy .............................................................................. 162  
           Scoring Model ..................................................................... 162  
           Portfolio Balance ................................................................. 165  
           Strategic Alignment .............................................................. 165  
       Eastern European Mobile Provider B ........................................ 165  
           Strategy .............................................................................. 166  
           Scoring Model ..................................................................... 166  
           Project Analysis .................................................................... 168  
           Portfolio Balance ................................................................. 170  
           Strategic Alignment .............................................................. 170  
       Central European Mobile Provider C ....................................... 171  
           Strategy .............................................................................. 172  
           Scoring Model ..................................................................... 172  
           Project Analysis .................................................................... 175  
           Portfolio Balance ................................................................. 178  
           Strategic Alignment .............................................................. 178  
       Western European Mobile Provider D ....................................... 179  
           Strategy .............................................................................. 180  
           Scoring Model ..................................................................... 180  
           Portfolio Balance ................................................................. 182  
           Strategic Alignment .............................................................. 182  
   Summary ....................................................................................... 182  

9 Project Portfolio Management in the Government and Not-for-Profit Sector ........................ 185  
   Government and Not-for-Profit Sector Overview ........................ 185  
   Government and Not-for-Profit Sector Case Studies ..................... 186  
       Introduction ............................................................................... 186  
       Ministry of Defense: Financial Department ............................... 186  

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## Contents

<table>
<thead>
<tr>
<th>Strategy</th>
<th>Scoring Model</th>
<th>Portfolio Balance</th>
<th>Strategic Alignment</th>
</tr>
</thead>
<tbody>
<tr>
<td>187</td>
<td>187</td>
<td>190</td>
<td>191</td>
</tr>
<tr>
<td>Federal Loan and Mortgage Lending Agency: Eastern Europe</td>
<td>191</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Strategy</td>
<td>Scoring Model</td>
<td>Project Analysis</td>
<td>Portfolio Balance</td>
</tr>
<tr>
<td>192</td>
<td>192</td>
<td>194</td>
<td>196</td>
</tr>
<tr>
<td>Canadian University: IT Department</td>
<td>197</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Strategy</td>
<td>Scoring Model</td>
<td>Project Analysis</td>
<td>Portfolio Balance</td>
</tr>
<tr>
<td>197</td>
<td>198</td>
<td>198</td>
<td>200</td>
</tr>
<tr>
<td>Company D: European National Bank</td>
<td>201</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Strategy</td>
<td>Scoring Model</td>
<td>Portfolio Balance</td>
<td>Strategic Alignment</td>
</tr>
<tr>
<td>202</td>
<td>202</td>
<td>205</td>
<td>206</td>
</tr>
<tr>
<td>Summary</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>207</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

## 10 Project Portfolio Management in the Professional Services Industry

<table>
<thead>
<tr>
<th>Professional Services Sector Overview</th>
<th>Professional Services Case Studies</th>
</tr>
</thead>
<tbody>
<tr>
<td>209</td>
<td>210</td>
</tr>
<tr>
<td>Introduction</td>
<td>Professional Services Company A: European Software Company</td>
</tr>
<tr>
<td></td>
<td>210</td>
</tr>
<tr>
<td></td>
<td>Strategy</td>
</tr>
<tr>
<td></td>
<td>Scoring Model</td>
</tr>
<tr>
<td></td>
<td>Portfolio Balance</td>
</tr>
<tr>
<td></td>
<td>Strategic Alignment</td>
</tr>
<tr>
<td>Professional Services Company B: European IT Services Company</td>
<td>215</td>
</tr>
<tr>
<td>Strategy</td>
<td>215</td>
</tr>
<tr>
<td>Scoring Model</td>
<td>215</td>
</tr>
<tr>
<td>Portfolio Balance</td>
<td>218</td>
</tr>
<tr>
<td>Strategic Alignment</td>
<td>218</td>
</tr>
<tr>
<td>Professional Services Company C: IT Department of a Global Professional Services Company</td>
<td>219</td>
</tr>
<tr>
<td>Strategy</td>
<td>219</td>
</tr>
</tbody>
</table>
### Contents

Scoring Model ................................................................. 219  
Project Analysis ............................................................ 221  
Portfolio Balance ......................................................... 222  
Strategic Alignment ....................................................... 223  
Summary ........................................................................... 224

### SECTION III  SUMMARIZING IT ALL

11 Statistical Summary and Analysis ................................. 227  
   Introduction ..................................................................... 227  
   Pharmaceutical Industry .............................................. 227  
       Scoring Models ..................................................... 227  
       Portfolio Balance ................................................... 228  
       Strategic Alignment .............................................. 229  
   Product Development Industry .................................... 229  
       Scoring Models ..................................................... 229  
       Portfolio Balance ................................................... 231  
       Strategic Alignment .............................................. 232  
   Financial Industry ....................................................... 232  
       Scoring Models ..................................................... 232  
       Portfolio Balance ................................................... 233  
       Strategic Alignment .............................................. 234  
   Energy and Logistics Industry ...................................... 234  
       Scoring Models ..................................................... 234  
       Portfolio Balance ................................................... 235  
       Strategic Alignment .............................................. 236  
   Telecommunications Industry ...................................... 236  
       Scoring Models ..................................................... 236  
       Portfolio Balance ................................................... 238  
       Strategic Alignment .............................................. 238  
   Government Sector ..................................................... 238  
       Scoring Models ..................................................... 238  
       Portfolio Balance ................................................... 239  
       Strategic Alignment .............................................. 240  
   Professional Services Industry ..................................... 241  
       Scoring Models ..................................................... 241  
       Portfolio Balance ................................................... 242  
       Strategic Alignment .............................................. 243  
   Aggregate Statistics .................................................... 243  
       Scoring Models ..................................................... 243  
       Portfolio Balance ................................................... 243  
       Strategic Alignment .............................................. 243
## 12 Implementing Project Portfolio Management: Lessons Learned from Implementations

<table>
<thead>
<tr>
<th>Section</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>Introduction and Overview</td>
<td>245</td>
</tr>
<tr>
<td>Level 1: Project Selection Reviews</td>
<td>245</td>
</tr>
<tr>
<td>Why Should You Consider Your Internal Resource Costs?</td>
<td>246</td>
</tr>
<tr>
<td>How to Establish the Size of Your Project Resource Pool</td>
<td>248</td>
</tr>
<tr>
<td>Level 2: Phase-Level Reviews</td>
<td>248</td>
</tr>
<tr>
<td>Level 3: Periodic Project Status Reviews</td>
<td>249</td>
</tr>
<tr>
<td>Importance of Mission and Strategy</td>
<td>249</td>
</tr>
<tr>
<td>The Mission</td>
<td>249</td>
</tr>
<tr>
<td>Company’s Strength, Weaknesses, Opportunities, and Threats Analysis</td>
<td>251</td>
</tr>
<tr>
<td>Why Do You Need Direct Executive Involvement?</td>
<td>252</td>
</tr>
<tr>
<td>“Cognitive Dissonance” Theory</td>
<td>254</td>
</tr>
<tr>
<td>“Mass Delusion” Theory</td>
<td>254</td>
</tr>
<tr>
<td>“Machiavelli Factor” Theory</td>
<td>255</td>
</tr>
<tr>
<td>Project Portfolio Management Charter</td>
<td>255</td>
</tr>
<tr>
<td>Portfolio Scoring Model and Project Ranking</td>
<td>256</td>
</tr>
<tr>
<td>Halo Effect</td>
<td>256</td>
</tr>
<tr>
<td>Project Proposal, aka the Business Case</td>
<td>259</td>
</tr>
<tr>
<td>Try to Generate as Many Project Proposals as Necessary</td>
<td>273</td>
</tr>
<tr>
<td>How to Collect the Largest Number of Proposals Possible</td>
<td>275</td>
</tr>
<tr>
<td>Portfolio Monitoring</td>
<td>275</td>
</tr>
<tr>
<td>Sound Project Management Capabilities Are Essential</td>
<td>275</td>
</tr>
<tr>
<td>Role of the PMO</td>
<td>279</td>
</tr>
<tr>
<td>Summary</td>
<td>281</td>
</tr>
</tbody>
</table>

References | 283 |

Bibliography | 285 |

Index | 287 |
Preface: Why Another Book on Project Portfolio Management?

PPM is the science and the art of selecting the best projects for the organization and maintenance of the project pipeline subject to internal and external constraints.

An Awkward Conversation with a CEO

I remember a consulting engagement that happened several years ago that became an inspiration for writing this book. I was invited to a meeting with several high-ranking executives of a very large port authority. All I knew before the meeting was that they seemed to have some project-related issues they wanted to discuss with me.

We sat down in a posh conference room with the CEO, COO, and several vice-presidents and commenced our discussion about the value of eliciting detailed requirements, planning, monitoring, and control of their projects. I noticed that the CEO of the company, while really eager to participate, looked like he had something else, something very important on his mind. Finally, he found a moment of quiet in the room and the following conversation took place:

CEO: There is another problem and I am not sure if it is within your domain of expertise…
Me: I am listening!
CEO: I constantly get complains from our middle management that they do not have enough resources to deliver all of their projects. The way I see it, I have several options:
I ignore their requests and tell them to roll up the proverbial sleeves and work harder or
I should either provide them with more resources—both human and financial—or I need to cut some of their projects. Moreover, if I decide to give them the resources they are asking for, I will need to justify this budget increase to our Board of Directors. And if I decide to cut the projects, how do we decide which initiatives have to be dropped?

COO: While we are on the “strategic issues” topic, there is another concern I wanted to bring up. Once a prominent member of our Board of Directors asked a simple question, “Why did you decide to do the container ship terminal project and postpone the cruise ship terminal one? What made the first project more important than the second?” And we could not provide them with a clear and succinct explanation…. We kind of felt that one was more important than the other, but couldn’t—for the lack of the better word—quantify it. We gave them a very generic speech regarding customer satisfaction, growth of local economy, etc., but they weren’t that impressed.

Me: Well, in the course of this conversation you touched upon the topics of project prioritization, strategic resource allocation, dropping or killing unwanted projects, and project value. All of these are part of the portfolio management domain.

CEO: What do stocks and bonds have to do with our problems?

Me: Oh, no! You are confusing financial portfolio management with project portfolio management

COO: Never heard of that one!

At first, I didn’t pay much attention to this dialogue, thinking that it was just an isolated event. However, in the next several years I was lucky enough to travel around the world doing consulting and training in the project and portfolio management area. As part of my practice, I frequently interacted with C-level people around the world, and to my great surprise, when asked what issues bothered them the most at their companies, the vast majority of the senior managers invariably mentioned the following challenges:

- Lack of resources to complete all of their desired projects
- Projects being delayed, over budget, and not delivering the full scope
- Lack of bottom-line improvements despite all of their project investments

What observations can we draw from this situation? Here is a list of my conclusions:

- The number of ideas flying around any organization is almost always beyond their internal capability (both fiscal and human resource-wise) to handle them.
Preface: Why Another Book on Project Portfolio Management?

Often, the desire of the executives to shove as many projects as possible into the proverbial resource bucket results in projects being under-resourced, which in turn leads to budget and schedule overruns.

Inability to choose the best projects and, as a result, killing bad ones, causes problems with bottom lines.

Project portfolio management has provided answers to all of the issues discussed so far, but, unfortunately, due either to the lack of understanding in the executive circles or, at times, a naive belief that a simple installation of a portfolio management software package can address all of the problems faced by modern companies, it has not become as mainstream as, say, project management.

Based on the observations listed here, it became clear that the market needs a new book on project portfolio management. This book was prepared with the following attributes mind:

- It needed to explain the basic concepts of project portfolio management in a simple, comprehensive manner in order to reach the widest possible audience.
- It should focus on both the theory of portfolio management as well as on the real-life application of these concepts so that it can demonstrate the transition from “dry” theory to reality.
- It should contain as many concrete examples as possible in order to demonstrate different facets of project portfolio management.

What I Plan to Do in This Book

This book is not designed to be a comprehensive project portfolio management handbook that would include all possible portfolio management theories, tools, and techniques. What I have attempted to do is focus on practical, simple, and easy-to-implement solutions that can be employed by any company in any part of the world.

A big part of this book focuses on real-life case studies demonstrating how companies around the world, both well-known giants and small, privately held organizations, have successfully developed and implemented their own project portfolio management models and processes.

The book is divided into three sections (see Figure P.1). Section I deals with the theory of project portfolio management and includes

- Chapter 1, Introduction to Project Portfolio Management—A general overview of project portfolio management theory
Preface: Why Another Book on Project Portfolio Management?

Section II is dedicated to case studies taken from several key industries:

- Chapter 4, Project Portfolio Management in the Pharmaceutical Industry—Three real-life case studies from the pharmaceutical industry
- Chapter 5, Project Portfolio Management in the Product Development Industry—Seven real-life case studies from the product development industry
- Chapter 6, Project Portfolio Management in the Financial Industry—Four real-life case studies from the banking industry
- Chapter 7, Project Portfolio Management in the Energy and Logistics Industries—Five real-life case studies from the energy sector
- Chapter 8, Project Portfolio Management in the Telecommunications Industry—Four real-life case studies from the telecom industry
- Chapter 9, Project Portfolio Management in the Government and Not-for-Profit Sector—Four real-life case studies from the government sector
- Chapter 10, Project Portfolio Management in the Professional Services Industry—Three real-life case studies from the professional services industry
Finally, Section III of the book concentrates on practical advice for implementing a project portfolio management:

- Chapter 11, Statistical Summary and Analysis—Significant statistics across industries
- Chapter 12, Implementing Project Portfolio Management: Lessons Learned from Implementations—Various ways of deploying project portfolio management and the issues and potential challenges to be aware of when implementing project portfolio management
About the Author

Jamal Moustafaev, MBA, PMP, is the president and founder of Thinktank Consulting, Inc., Vancouver, British Columbia, Canada. He is an internationally acclaimed expert in the areas of project/portfolio management, project scoping, process improvement, and corporate training. He has worked for private-sector companies and government organizations in the United States, Canada, Europe, Asia, and the Middle East, including the U.S. Department of Defense, Siemens (Germany), PETRONAS (Malaysia), TeliaSonera (Sweden), and British Petroleum (United Kingdom), to name a few.

Moustafaev authored two other books dedicated to project and portfolio management:

- Delivering Exceptional Project Results: A Practical Guide to Project Selection, Scoping, Estimation and Management
- Project Scope Management: A Practical Guide to Requirements Elicitation, Analysis, Documentation, Validation and Management for All Types of Projects

Moustafaev is a certified Project Management Professional (PMP®). He holds an MBA in finance and a BBA in finance and management science from Simon Fraser University. In addition to teaching the highly acclaimed “Project Management Essentials” course at the British Columbia Institute of Technology (Vancouver, Canada), Moustafaev also offers several project and portfolio management corporate seminars through his company.

For further information, feel free to contact him:
Jamal Moustafaev, BBA, MBA, PMP
President and CEO
Thinktank Consulting Inc.
E-mail: info@thinktankconsulting.ca
Website and blog: www.thinktankconsulting.ca
THE THEORY
Chapter 1

Introduction to Project Portfolio Management

Historical Case Study: Ibaraki Airport

On March 11, 2010, the new Ibaraki (IBR) Airport opened in Tokyo, Japan. The first flight to arrive was an Asiana Airlines Airbus A321 from Incheon International Airport in South Korea. This was the first and last flight that day.

Let us examine this case study from the very “beginning.” The airfield was first developed in 1937 under the orders of Emperor Hirohito, and for the next several decades it served as a Japanese Air Force base. Several years after the start of the twenty-first century, the local government decided to convert the military installation into a civil airport.

According to different sources, the cost of the construction project was somewhere between $220 million and $230 million. Also, according to multiple publications, the project was completed on time and within budget with all the requested features delivered. Therefore, one could conclude that, from a project management point of view, this project was a complete success.

However, at the time of the project’s inception, both of the two major Japanese airlines—All Nippon Airways and Japanese Airlines—notified the local government that they did not intend to use the airport after its completion. These airlines’ decisions implied that 90% of the air traffic in Japan would be absent from the airport.

Another issue that was known right from the beginning of the venture was the problematic location of the airport. It was located 96 miles (155 km) from the Shinjuku district of Tokyo. Another problem at the time the airport opened was there were no plans to offer any type of public transportation from or to the airport.
It was estimated that the passengers trying to get to the center of Tokyo would have to spend more than 3.5 hours to reach their intended destination.

Furthermore, the facilities at the IBR Airport were minimal. While the provincial government marketed the airport as a low-cost airline hub, the facilities at the airport were totally insufficient to meet the requirements.

In 2014, there were six local and two international flights to Shanghai and Seoul running from the IBR Airport. This feat was achieved only after a sharp decrease in the landing fees for the airlines. The IBR Airport charged approximately 60% of what the Narita Airport in Tokyo charged the flights for the right to land in its airfield.

As has been mentioned, we cannot really blame the project management aspect for the failure of the project. The team built whatever was required from them on time and within budget. If we cannot hold the project manager responsible for this failure, then who should be accountable?

The answer to that question lies in the project portfolio management (PPM) domain—the art and the science of selecting the best, highest value projects for any given organization. Obviously, the wrong project was selected and implemented by the IBR Airport prefecture in the first place. If the provincial government’s strategy has been “we will try our hardest to deliver the biggest bang for the taxpayer’s buck,” it should have asked the following questions:

- How will the airport generate revenues for our district if two major Japanese operators, which account for 90% of the country’s air traffic, refuse to use our airport even before the construction started?
- Would any airport located about a 3.5 hours drive from Tokyo attract passengers?
- Should we consider including some kind of transportation solution to get people to Tokyo?
- If we are to target the low-cost airlines, should we include the features required by such carriers into the airport design?

Since none of the these questions were asked, the IBR Airport is a symbol of decades of public spending and of vanity projects undertaken by both governments and companies worldwide.

**Sounds Comparable to Your Company?**

Let me start with a list of top 10 signs that a company you are working for is in dire need of PPM. As we go through the list of signs with appropriate explanations, keep track of what attributes are mentioned in your organization:

1. Project managers and functional managers (department directors and managers) constantly fight over resources. The functional department heads claim that they need their people to fulfill their day-to-day operational obligations,
while the project managers complain that they do not get enough people to finish their projects on time and on budget.

2. Priorities of the projects initiated by the executives constantly changed, resulting in quick resource reassignments. If in January project A was the most important initiative at the company, by June it might be downgraded to number 10 on the list of the important company ventures and may be completely removed from the list.

3. Managers, even at the mid-level, have the authority to unilaterally approve and initiate projects that automatically get added to the company’s portfolio of projects.

4. These projects are expected to start as soon as approved by senior managers, regardless of resource availability.

5. There is a chronic shortage of resources at the organization. Employees are constantly complaining about being overworked, while the managers insist that they must roll up their sleeves and work harder.

6. Projects are frequently late and/or over budget and/or do not deliver the full scope promised.

7. Even if the strategic idea is implemented, the company sometimes fails to achieve the expected improvement or fails to receive any value from the project at all.

8. There is significant turnover at the senior management level. A new group of senior executives joins the company, appears cheerful, but at the same time makes vague promises, none of which are realized, and leaves after three to five years.

9. The strategic plan—even if the company has one—is presented as a list of projects, but the cause–effect logic tying those initiatives to the company’s mission, goals, and the strategy is absent.

10. The list of company projects is not prioritized. Therefore, it is assumed that all of these initiatives must be started and implemented more or less simultaneously.

If at least five of the attributes match your organization, this book is for you; please read further, learn, and enjoy!

**PPM: A Quick Overview**

**PPM Defined**

One of my favorite definitions of PPM states:

Project portfolio management is the management of the organization’s projects so as to maximize the contribution of projects to the overall welfare and success of the enterprise subject to internal and external constraints by maximizing the project value, balancing the portfolio and aligning it with overall company strategy.
Figure 1.1 demonstrates the proper flow of the project in the PPM life cycle. Initially, someone at the company has a project idea. That person should assess his or her initiative from three aspects—project value, desired portfolio balance, and strategic alignment, and capture all of this information in a business case. For a detailed explanation of value, balance, and strategic alignment, see the “The Three Pillars of PPM” section in this chapter and Chapter 2.

The business case is then submitted to the portfolio selection committee whose mandate is to reevaluate the project according to the approved company’s scoring model, portfolio balance requirements, and strategic alignment prerequisites. If the project is approved, the project manager is assigned, and from this point, both project management and PPM run concurrently. The “job” of the project management is to ensure that the project is delivered on time, on budget, and with only minimal defects, while the “responsibility” of PPM is to verify at the end of each stage that the assumptions made about the project value, balance, and strategic fit are still true.

Let us try to visualize this process using a very primitive example. Imagine that someone at a real estate development company decides to build a villa and sell it for profit. Again for the sake of simplicity, let us assume that the company does not care about the balance and strategic alignment, and the only value factor that matters is the return on investment (ROI).

The executive studies the real estate market and comes to a conclusion that the house they plan to build would be worth $100,000. The executive chats with the company architect, who provides them with a very high-level project cost estimate of $50,000. Is this an attractive project? The ROI is calculated as follows:

$$\text{ROI} = \frac{100,000 - 50,000}{50,000} = 100\%$$

So, the first checkpoint is passed, the project is approved, and the project manager is assigned. The project manager holds discussions with the project champion, the architect, and several company engineers to create a project charter. Once it is
complete, the project cost must be upgraded to $55,000, while the forecasted sale prices remained unchanged. The new ROI then is

\[
\text{ROI} = \frac{100,000 - 55,000}{55,000} = 82\%
\]

Again, since 82% is an attractive number, the steering committee approves the project and it moves to the planning stage. Here, the project manager creates the requirements document followed by the villa blueprint and the bill of materials. When the project plan is finished, the cost has to be adjusted to $75,000, mainly because of the unstable grounds where the villa will be located plus higher-than-expected infrastructure expenses. On the other hand, the marketing specialists inform the steering committee that the projected sales price has to be downgraded to $70,000 because of a sharp increase in the interest rates. The ROI now is

\[
\text{ROI} = \frac{70,000 - 75,000}{75,000} = -6.7\%
\]

Since the project is no longer attractive by the company standards, it should be stopped until the situation improves. The problem is, as one of the executives states, “Once the locomotive leaves the station, no one even bothers to check on it. It officially becomes a runaway train as soon as it departs!”

One final word of warning regarding PPM: PPM is not to be confused with the following concepts:

- Management of multiple projects—that is, the domain of program management.
- Enterprise project management—that is, a 360° view of the organization’s collective efforts.
- Professional services automation—software, no matter how good it is, is not going to choose the right projects for your company.

I have been asked this question in many consulting engagements:

\textit{Can we address our project (portfolio) management deficiencies by installing appropriate software?}

A short and not very diplomatic answer to this question is an unequivocal “No,” and here is why:

\textit{Imagine that you can’t play a piano. As a matter of fact, you know nothing about music. Will the purchase of the best piano in the world address your inability to play? Probably not …}
Another, more technical example:

*Imagine that you know nothing about accounting to the point that you can’t tell the difference between the debit and the credit. Will the installation of the most advanced accounting software on your desktop or laptop instantaneously make an accounting expert out of you?*

Having just a project management or portfolio management software installed on your computers will do nothing to help you with your project-related challenges. As a matter of fact, it is very likely to have an opposite effect as I have witnessed in many organizations. What is likely to happen when people who have a very vague understanding about project management are suddenly forced to fill out endless time sheets and create cumbersome Gantt charts? They will probably fail to appreciate the importance of this and find very creative ways to ignore these tasks.

Now, having said all that, both project management and PPM software implementations after the proper methodologies have been developed and fine-tuned to the company needs can be very helpful. The executives just have to sequence those tasks properly.

**The Three Pillars of PPM**

One can say that PPM rests on the following three pillars:

1. Projects selected must maximize the value for the company.
2. Projects selected must constitute a balanced portfolio.
3. The final portfolio of projects must be strategically aligned with the company’s overall business strategy.

Chapter 2 is dedicated to a detailed analysis of all three concepts; nevertheless, let me share some interesting examples from the experience I gained throughout my consulting engagements.

Initially, many organizational leaders assessed the value of their projects by directly borrowing the portfolio model from the financial industry. In other words, they analyzed the value of their projects based solely on the financial factors, such as net present value (NPV), ROI, internal rate of return (IRR), and many others. However, soon, despite their obvious benefits—companies are in business to make money—these models had two major drawbacks: notorious unreliability of financial forecasts and the fact that the models were ignoring other important factors, such as strategic fit, marketability, resource requirements, risk, etc.

Eventually, the more forward-thinking organizational leader switched to scoring models that included several factors to define and assess the value of their proposed projects. Here are some examples of representative models:
A software product company operating in the e-commerce market developed the following fairly aggressive scoring matrix:

- Product and competitive advantage
- Market attractiveness
- Leverage of core competencies
- Technical feasibility
- Financial reward

On the other hand, a smaller North American university had a more conservative approach to project selection. Its factors included

- Strategic fit
- Resources required
- Technical feasibility
- Financial value
- Riskiness

The second pillar of PPM is the balance of the portfolio. It is usually assessed using 2-D graphs with different values attached to the vertical and horizontal axes. One of the most popular pairs is the project’s risk and its financial reward (see Figure 1.2).

In this particular model, the company has projects A and B located in the low-risk, low-reward quadrant, while project C is in the low-risk, high-reward zone. Two smaller ventures, D and E, are positioned in the high-risk, high-reward zone of the graph and, finally, a medium-sized project F is in the high-risk, low-reward zone.

![Portfolio balance—generic example.](image-url)
An interesting conversation clearly demonstrating the value of the portfolio balancing took place when I was teaching my Project Portfolio Management Masterclass in the Gulf region. Among other attendees, there were two high-ranking representatives of one of the largest construction companies: an owner (and CEO) and his general manager. The conversation went as follows:

CEO: This portfolio balancing theory is great but I can hardly imagine how it would apply to my business. We are basically very similar to a professional services company. People come to me and say, “Build me this!” What am I going to reply to them? “Sorry, your project does not fit into our portfolio balance model?”

Me: Well, let me finish the module on balancing the portfolios and we will have a chance to chat about this topic at the end.

CEO: (staring at Burj Khalifa visible through our conference room window) Wait a second! I think I get it! I am fairly old and close to retiring in a couple of years. Your presentation made me think; what kind of legacy am I going to pass on to my son, who will take over our business? Right now our entire portfolio consists of very low-risk, low-reward projects. We basically build shoebox types of buildings with a very low margin of profit. I would like to have that (points to Burj Khalifa) on our company brochures!

GM: Forget about Burj Khalifa, we have conducted some calculations and if we get into HVAC business, our margins will go up from 5% to 25–30%. And if we somehow manage to get into the energy management business, we can raise our profit margins to 50–75%. Too bad we don’t have any internal expertise at our company.

CEO: Why don’t we hire several specialists in the HVAC and energy management and start a couple of projects from those domains next year? These projects will represent maybe 5% of our total portfolio, but this share will grow with time.

What happened in this conversation? The CEO of the construction company suddenly realized that almost 100% of his projects fell into the low-risk, low-reward category. Concerned with the sustainability of his business model and with the help of his general manager, he decided to shift a small percentage of his projects into the high-risk, high-reward zone, hoping that with experience they would be able to turn them into low-risk, high-reward ventures.

The definition of strategic alignment is fairly simple and straightforward: all of your projects must in one form or another assist the implementation of your company’s strategy—a very simple statement that at times is very difficult to explain. To do that, let us examine several examples of project alignment and nonalignment.
At one point of time, the executives of Société Bic (commonly referred to just as Bic), a French disposable consumer products company known for its razors, lighters, ballpoint pens, and magnets, made a very interesting decision. The company decided to enter … the ladies underwear market by designing, producing, and selling, among other things, ladies pantyhose. Needless to say, the company failed miserably with this project since the consumers were unable to see any link between Bic’s other products and underwear, because of course there was no link at all.

Although, as the urban saying goes, “hindsight is 20/20,” let us nevertheless try to assess this initiative from the strategic alignment perspective. Here is a list of potential questions one could direct at the Bic executives who proposed to add this project to their company’s portfolio:

- We manufacture disposable products made from plastic. What the heck do we know about ladies underwear?
- All of our production facilities are built based on the injection-molded plastic technology? Where will we get the equipment to manufacture underwear?
- People, especially females, perceive us as producers of cheap disposable lighters and pen? Would they be interested in purchasing our lingerie products?
- What about the distribution channels? Retail outlets that trade disposable razors, pens, and lighters usually do not sell underwear. Does this mean we will have to acquire a new group of retail channels?

It is obvious that none of the answers to these questions would have been encouraging had they been asked at the time of project initiation. Indeed, there was little or no alignment between the proposed endeavor and the overall company strategy.

Here is another example that is a bit more subtle, but still very powerful in my opinion. Several years ago, I was hired by a relatively small software company to assess their project and portfolio management practices. After several days of investigation involving interviews with the company’s employees and audits of their project management processes and documentation, I jotted the following observations in my notebook:

- The company consisted of approximately 100 employees roughly divided into two groups: product development (20 people) and professional services (80 people).
- The product development team was responsible for the continuous development of new versions of the company’s products.
- The professional services guys were the ones responsible for taking the existing platform and deploying it at customer sites.
- Professional services team charged the customers between $275 and $350 per man-hour, usually generating between $500,000 and $2,000,000 per project in professional services fees.
The product team, on the other hand, did not generate any revenue.

While the professional services department was fairly mature from the project management and business analysis perspective, the product development team was a complete mess with an utterly ad hoc approach to their projects.

As a result, the product team failed time and time again with the delivery of the new product versions.

The situation got so bad that six out of the eight major customers refused to talk to the company account managers until they fixed their product quality issues.

Further discussions with the product team in attempt to establish the root cause of such a poor performance led to the following discoveries:

- Since the professional services were perceived by the company as “money makers” and the product team as “money wasters,” all of the best and most experienced resources were always deployed in the professional services department.
- Moreover, if the company was operating at a full capacity and a new customer deployment project came along, instead of hiring additional permanent employees or contractors, the management just cannibalized the product team, again, pulling the best resources and reallocating them to the professional services projects (see Figures 1.3 and 1.4).

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**Figure 1.3  Product team cannibalization—before.**
Needless to say, both the overall morale and the cohesiveness of the team suffered; add to that lack of any kind of requirements analysis and proper project planning and the overall performance of that team was not that surprising after all.

The subsequent conversation with the company CEO was even more interesting. I did not disclose any of my findings initially to obtain the executive’s uninfluenced opinion on the state of company affairs:

Me: So, let us start at the very beginning. Could you please tell me what the company’s mission is? In a perfect world, where do you see your organization in three to five years?

CEO: Well, we intend to become industry’s leading provider by being on the cutting edge of innovation and creativity, by supplying the market with the most revolutionary and visionary products.

Me: And who is your competition?

CEO: Companies A, B, C, and D (names several multimillion and even multibillion global brands)

Me: So, you are planning on taking on these giants by having a product development team consisting of twenty inexperienced developers that gets cannibalized in favor of the professional services department every time a new project comes along? How exactly are you planning to accomplish this?
This story serves as one of the best examples showing how the actions of company executives do not align with the overall company strategy. The only thing that remains unclear is whether the strategy was conceived as a set of “sexy” and fashionable words copied from another company’s website or, indeed, the executives honestly believed in their mission statement but failed to see how their actions contradicted it.

The discussion of portfolio management in general and strategic alignment in particular would not be complete without the “gut feel project” discussion. I encountered this phrase several years ago when consulting for a very large German company. The conference room was full of division directors—all of them engineers by education—and one of them asked me the following question: “I understand your proposal to establish a selection mechanism for projects, but what about gut feel projects that go against the common sense, but turn out to be ultimate winners? Take Apple and iPhone for example. A company producing computers decided to go into a completely new domain and won.”

Yes, Steve Jobs was a visionary, but is it true that his company went into a completely unknown domain? If we examine our smartphones today, what percentage of their functionality is responsible for making and receiving the phone calls? Probably a tiny portion of the overall system and the software installed on it. In reality, modern smartphones are minicomputers with an add-on capability to make phone calls rather than the other way around.

What Steve Jobs was able to predict is that the future of the phones laid in the computer-based technology, and he realized that Apple was very good at designing and building state-of-the-art personal computers. Hence, there was no abandonment of the company’s know-how or any other strategic assets when Apple decided to venture into the first iPhone project.

**What Happens without Project Portfolio and Proper Resourcing?**

There is a multitude of potential problems that await the company without proper PPM processes in place. Initially, lack of portfolio management manifests in terms of reluctance to kill weak project proposals, projects being selected based on politics or emotions, and lack of strategic criteria in the project selection.

What are the immediate results of such an ad hoc approach? There are at least two: too many projects are added to the pipeline and many—if not the majority—of these ventures are of low value to the organization.

These two aspects also have several long-term effects. As the company resources are too thinly spread across multiple initiatives, delivery times tend to increase and the final quality of the products tends to suffer, because the employees are scrambling between multiple ventures, missing deadlines, and making mistakes that become harder to fix as the projects progress from initiation to the close-out stages.
Project failure rate increases either because the initial ideas were of poor value or because—even if they were indeed good ideas—the project teams failed to deliver quality products. As a result, the proverbial “product winners” that every executive craves to see in his company offerings are very hard to come by.

If one can use the sniper analogy, then instead of placing a few well-aimed shots from a high-quality rifle, the company fires multiple blasts from a shotgun hoping that at least some of the pellets will hit the targets.

Another interesting phenomenon that I have observed at many organizations is the accumulation of technical debt that eventually eclipses all of the high-value project work the company can deliver instead.

Let me demonstrate this with a real-life example (see Figure 1.5). I once worked at the IT department of a large financial institution. The executive management of the department had a very interesting approach to their strategic planning: at the beginning of every year, they would examine the previous year’s performance statistics and discover that the information technology group has delivered, say, 50 projects. They would go to the strategic planning meeting of the entire company and claim something to the effect of

Last year we delivered sixty projects. In order to exceed the expectations this year we will accomplish eighty projects!

Obviously, all of the people in the room would be happy with these new commitments, and the new plan would be approved. The interesting aspect of this story is that none of the IT managers even bother to compare the relative complexity of the old versus new projects. Moreover, not one of them even asked a simple question, “How successful were we with the 60 projects we delivered last year?”

They would arrive back at their offices, present the new project list to their employees, and the hard work would commence. The IT team would be assigned the first 20 of the planned 80 of the initiatives (for simplicity, let us assume that 80 projects have been proportionally divided between four quarters). Since they

![Figure 1.5 The “technical debt” phenomenon.](image-url)
had trouble delivering 15 projects per quarter and the complexity of the projects usually does not decrease with time, all of the project teams would experience serious issues with the timely delivery of the initiatives assigned to them.

The project managers would tell the executives about the challenges, but they would reply with something along the lines of “Just roll up your sleeves and work harder.” At the end of the quarter, the IT management would report that the projects allocated to the quarter have been delivered successfully, although in reality there would be some serious issues, bugs, and deficiencies. What was the response of the business side of the organization? “Great! Here are the next 20 projects! See you at the end of Q2.”

What would happen in the second quarter is that the first month of it would be spent addressing the issues left over from the first quarter, which would leave the entire department with two months to deliver the amount of work they could not accomplish in three months in the first place!

The history repeats with the project managers being told to “sweep their problems under the rug” and report to the business side of the organization that everything is working fine. At the end of the second quarter, the business side gives IT an additional 20 projects. The only problem was that the project teams had to spend two out of the three months in the third quarter addressing the issues generated in Q1 and Q2.

When the fourth quarter comes, the department will have absolutely no time to devote to the Q4 projects as its resources were completely invested in correcting the problems generated in Q1, Q2, and Q3.

This particular example has been somewhat fast-forwarded for illustrational purposes. Sometimes, this entire cycle took only a year, but sometimes it stretched to three or four years. However, the end result of not having effective proper portfolio management and strategic planning would always be the same: either a screeching halt to all the company projects or a realization that nothing can be done with the growing technical debt problem.

What Is Happening in the Industry?

In my first book *Delivering Exceptional Project Results* (Moustafaev 2010), I shared the results of Robert Cooper’s study (Cooper et al., 2003) regarding the lack of popularity of PPM among various companies:

- 84% of companies neither conduct business cases for their projects nor perform them on select key projects.
- 89% of companies are flying blind with no metrics in place except for financial data.
- 84% of companies are unable to adjust and realign their budgets with their business needs.
The results of this study imply that portfolio management was adopted in between 10 (if you are a pessimist) and 15 (if you are an optimist) organizations as of 2002.

Several years later, in 2012, the Project Management Institute prepared its 2012 PMI Pulse of the Profession™ (Project Management Institute, 2012) that was dedicated to the topic of PPM. The report was based on an annual global study of more than 1000 projects, programs, and portfolio managers. More than half(!) of the respondents reported frequent use of portfolio management in their organization, an increase of five points from the previous year’s survey.

On the one hand, this report shows great improvement from 2002. On the other hand, however, one must take into consideration the audience of the survey. If we survey project, program, and portfolio managers, it is probable that the companies they work for would be more open toward the concepts of project and portfolio management. After all, there are still many organizations without dedicated project managers (let alone program and portfolio managers) on their payrolls.

Nevertheless, these numbers should probably be viewed as a positive trend. Here are some interesting statistics from the PMI study (see also Figure 1.6):

- 62% of projects at organizations that describe themselves as highly effective in portfolio management met or exceeded the expected ROI.
- Of the organizations that consider their portfolio management to be highly effective, 89% claim their executives possess knowledge and understanding of the PPM principles. Compare this statistics with only 25% at the organizations where portfolio management is minimally effective.

![Figure 1.6](image-url)
When trying to create and foster a culture of innovation, highly effective companies use PPM 45% of the time, as contrasted to only 26% in minimally effective companies.

Furthermore, according to the study, organizations where managers focus on strategic as well as departmental goals, 70% of projects meet or exceed their forecasted ROI, compared to 50% at organizations where managers neglect strategic alignment.

In addition, the PMI report identified several key drivers for PPM:

- 78% of the respondents mentioned that senior manager receptivity was one of the most important factors.
- 62% said standardized metrics and criteria were important.
- 66% highlighted the importance of competent portfolio governance.
- 59% pointed out the importance of having consistency and logic in organizational strategic objectives.

Conclusions

To summarize our findings so far, consider these lessons from the facts and examples presented in this chapter? Here are the most important ones:

- PPM is important for organizations that want to thrive in the future by being competitive, innovative, and financially driven.
- It is impossible to achieve long-term success by being ineffective with your project selection or hoping that the organization would be able to hire a “visionary CEO,” who will be capable of producing one or two brilliant ideas every month.
- Investors are beginning to assess PPM capabilities of a given company before making a decision on whether to purchase their stocks.

Regardless, executives working together with project and portfolio management professionals have additional challenges to address, which include the following:

- PPM is still not widely recognized in the company.
- There is a lack of understanding of PPM.
- Frequently PPM is viewed as something academic, cumbersome, and costly.
- The benefits of PPM may not be obvious to the CXO-level people.
- The task of creating and implementing PPM is frequently delegated to the mid-level managers.
Summary

We started this chapter with an analysis of a project—the IBR Airport construction—that failed from a business perspective but excelled from a project management perspective. The failure to deliver the much-sought value on this project as well as countless other ventures is rooted in the shortcomings on the PPM side.

Later, we looked at the definition of PPM and discussed several examples of portfolio value, balance, and strategic alignment, including a North American product company, a Canadian university, a Saudi construction company, and a software development organization.

We also examined the effect the absence of PPM has on the organizations, including thinly spread resources, longer time-to-market, and poor quality of final products and services.

Finally, we examined two research initiatives—one was conducted in 2002 and another in 2012. The comparison of these studies demonstrates that PPM has made bold strides in the last 10 years, but there is a lot of work to be done, including executive education, spreading portfolio management knowledge, and demonstrating simple and clear examples on how to achieve PPM excellence.