



# Management Services

Leaders in Portfolio, Program(me) and Project Management

---

## Portfolio Management – selecting the right projects

### Context

According to the Office of Government Commerce (OGC) guide to Portfolio, Programme and Project Offices (P3O) an established structure for enabling the selection of the right programmes and projects provides the following benefits:

- ☞ reduced risk, quicker starts, quicker time to market, increased confidence in investment;
- ☞ pet or rogue projects stopped at the initial investment stage gate; and
- ☞ business strategy proved or disproved as quickly and cheaply as possible before major investment is committed.

The 2005 and 2010 Programme Management Surveys by KPMG also recommend that, as one of the six golden rules for success, organisations should:

*establish an enterprise-wide prioritisation process that objectively and continuously evaluates projects and programmes to help maximise and realise the value from investment.*

A structured approach to prioritising projects will also reduce the overheads for an organisation's executive committee as a level of pre-assessment can be carried out by the Portfolio Management Office before any project is submitted to the executive committee for consideration.

### Overview

The prioritisation of projects is a key task for any organisation as it is clearly not possible to fund and resource all projects to be undertaken simultaneously.

Regardless of the organisation, projects have one of three motivators:

- ☞ legislative implementation/compliance
- ☞ capability maintenance; and
- ☞ capability development to either build new business, reduce costs or increase revenue.

Of these the first two are non-discretionary, although the means by which capability is maintained may change over time to suit the organisation's forward plan/strategy. Capability development projects are discretionary in nature and are often competing for the meagre funds available only after the non-discretionary projects have been funded.

### Prioritisation Criteria

In addition to the three categories mentioned in the overview (compliance, maintenance and new capability) this paper proposes the following criteria for the selection and prioritisation of competing projects.

#### Business Alignment

Of all the papers and references on portfolio, programme and project management, business alignment is the most common criteria proffered as a means for the selection and prioritisation of projects. KPMG International's 2002-03 Programme Management Survey reported that strategic/business alignment was the most often used criteria (75%) to make Go/Hold/Cancel decisions. Alignment with business strategies is also one of the golden rules for success offered by KPMG in its numerous surveys of programme management.

*Aim to endure all initiatives are clearly aligned with business strategy. Where appropriate, adjust to maintain alignment for reinvesting funds elsewhere.*

KPMG 2010 Programme Management Survey

#### Cost Benefit

By only a small margins (72% to 75%) cost benefit analysis (aka. return on investment or commercial value) is the next most often used criteria for the selection of projects.

Costs are a combination of the direct cost to the agency of undertaking the project and the indirect cost (aka dis-benefits) of undertaking the project. Dis-benefits may take the form of:

- ☞ additional loads on other areas of business. For example, a project that introduces a new communication channel with clients may



# Management Services

Leaders in Portfolio, Program(me) and Project Management

---

significantly impact on the performance of the network, thereby bringing down the performance of all systems; or

- ☞ additional loads on clients. For example, a project that introduces a new way of gathering information may require clients to build/acquire new systems to gather and provide that information.

The simplest way to estimate the value of these dis-benefits is to estimate the cost of activities needed to nullify the dis-benefit. For example, in the case of the new way of gathering information from clients, the quantum of the dis-benefit is the cost of providing IT hardware and software to all clients.

Benefits on the other hand are a combination of tangible and intangible outcomes. Furthermore, not all benefits can be translated into a financial equivalent that can be nominally used to offset costs (incl. dis-benefits) nor are all benefits realised by the organisation undertaking the project. Some benefits might only be realised by clients or the broader community. Finally, the degree to which expected benefits can be truly realised is influenced by the ability of the organisation to undertake the necessary business change/transformation.

For the purpose the project prioritisation model proposed in this paper:

- ☞ cost shall be the combination of direct cost of the project and the in-direct cost on other areas of the agency (indirect costs (or dis-benefits) on other stakeholders are already accounted for in the Stakeholder Alignment criteria);
- ☞ benefits are limited to the expected benefits to the agency. Benefits to other stakeholders will be treated as null to off-set the in-direct cost the inefficiencies associated with change.

## Riskiness

This is a measure of the likelihood that the project will conclude successfully and that the claimed benefits are realisable. Under this criteria projects with a high likelihood of success will be treated more favourably than those with a low chance of success.

Factors that determine the riskiness of projects include:

- ☞ clarity of definition and purpose.  
The greater the clarity, definition and acceptance

of the purpose and expected outcomes of a project the greater the certainty of outcome and the lower the riskiness value;

- ☞ the rigorousness of the cost estimation. Where cost estimation is based on firm vendor quotations, experience with similar projects and/or industry specific cost estimation tools, the lesser the financial riskiness of the project. On the other hand, where cost estimation is based on 'best guess' or 'back of the napkin' calculations the riskier the undertaking;
- ☞ uniqueness of the project. The more unique the activity the more likely the project will encounter difficulties. Conversely, the more a project treads a well-worn path and/or implements COTS products that have already been adopted by comparable organisations, the lower the riskiness value;
- ☞ complexity of the project. The more components a project has, there more likely that something could, and will, go wrong. Complex, multifaceted projects are inherently more risky than simple, single outcome projects.
- ☞ commitment of the user community to utilise the output of the project to realise the potential benefits and deliver true outcomes. If the business unit is not ready or committed there is a higher chance (riskiness) that the project will result in a white elephant and that the claimed benefits will not be realised.

Riskiness is therefore a combined function that accounts for achievability of the outcome given the inputs of scope definition, budget, schedule, availability of resources and executive commitment.

## Customer Alignment

Customer alignment is a measure of how the outcomes of a project assist or are beneficial to customers. Where the outcomes of a project are beneficial to customers it is assumed that these customers will be positively disposed towards the organisation.

On the other hand, some projects have no influence on the benefits (or dis-benefits) for customers. Whilst these projects may not score well on this criteria, they may score sufficiently well on the other criteria to warrant consideration and approval.



# Management Services

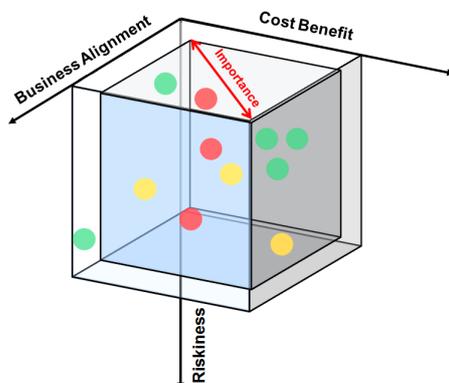
Leaders in Portfolio, Program(me) and Project Management

Finally, some projects may negatively impact on customers (ie. have significant dis benefits such as additional compliance costs or processing delays). It is safe to assume that customers will not appreciate projects whose outcomes disadvantages them. That's not to say that these projects should not proceed. There are instances, such as essential maintenance and enhanced security infrastructure, where negative impacts on customers can not be avoided and the project must continue regardless.

## Project Selection

Counting the original project motivation categorisation, this paper has proposed five different criteria that need to be balanced when reaching a decision on which projects should be funded. The challenge is to present all of the different project's scores on all criteria in a manner that enables an executive committee to quickly digest the information and reach an informed decision.

This paper proposes the following graph as a means of displaying each project's score against the five criteria.



In this graph, a project's score for Business Alignment, Cost Benefit and Riskiness determines where the project's icon is plotted on the three dimensional plot. A project's Customer Alignment determines the colour used to denote a project with:

Green dots denoting a positive perception of the organisation as a result of the project by customers;

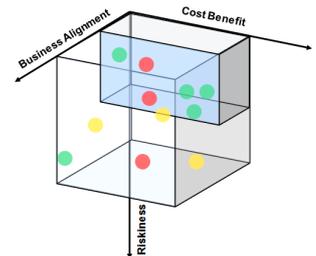
Amber dots denoting a neutral perception; and

Red dots denoting a negative perception.

The other element of this graph is the shaded box, or *target octant*, that denotes the volume in which a project must be plotted in order to be selected for presentation to the executive committee. The size and location of this *target octant* depends on whether the project's motivation is compliance, maintenance or new capability development.

### Compliance

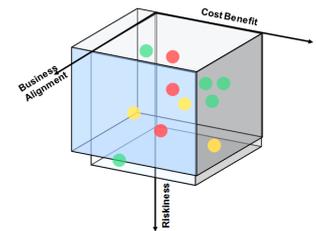
Compliance projects are unlikely to have a high level of business alignment as they are externally imposed by government and/or industry bodies. Furthermore the cost benefit of such projects is also likely to be low.



### Maintenance

By definition, these projects need to be undertaken as failure to do so may result in significant operational failure or major increase in operational costs.

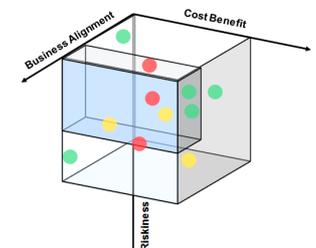
However, this does not mean that all projects should be approved. For example, there may be essential maintenance projects whose riskiness outweighs the risk of not undertaking the project. Accordingly, the target octant for this priority does not extend the full distance on the riskiness axis. The target octant does however extend backwards along the cost benefit axis in recognition that essential maintenance projects may cost more than the benefit that results.



### New Capability

Unless an organisation is considering a totally new venture, new capability projects will be aligned with the current business strategy.

Accordingly the target octant considers all projects that promise a high level of business alignment, within the limits of





# Management Services

Leaders in Portfolio, Program(me) and Project Management

---

reasonable riskiness. Even projects with low cost benefit values are potentials provided their business alignment is high and the riskiness is low.

Under the project prioritisation process proposed in this paper, each project would be plotted in one of the three graphs according to which category it belonged to (compliance, maintenance or new capability). The executive committee would review each graph, starting with compliance projects, and approve those projects that were in the respective target octants.

The approach proposed in this paper provides a means for the selection of projects in a structured and objective manner that would lead to:

- ☞ reduced risk, quicker starts, quicker time to market, increased confidence in investment;
- ☞ pet or rogue projects stopped at the initial investment stage gate; and
- ☞ business strategy proved or disproved as quickly and cheaply as possible before major investment is committed.