Advances in Project Management Series [1]

Defining the boundaries of portfolios [2]

By Robert Buttrick

Do the right thing?

Defining a portfolio's objectives, scope and boundaries is the first and most critical step in portfolio management. Everything that happens afterwards depends on this being right. You have probably heard about 'doing the right thing' and 'doing it right'. The former is about undertaking activities to further strategic aims and the latter means doing them in a consistent way. 'Doing the right thing' is related to **effectiveness**, whilst 'doing it right' is more about **efficiency**. An effective organization is more likely to survive and thrive than one which is merely efficient. Being effective and efficient provides a sound basis for success as an organization.

Textbooks, methods and standards provide advice on 'doing it right' but cannot tell you what the 'right thing' is for your organization. Setting the strategic direction is a fundamental accountability of the senior leadership team and no book, consultant or observer can relieve them of that accountability. If you are a senior leader, the most a text book, method or standard can do is prompt you to ask yourself the questions which prompt the most useful answers and provide advice on how to organize your business to maximise its effectiveness.

Defining a portfolio depends on having a thorough understanding your organization, its aims and how it works. This is as true of a government department as for a multi-national corporation, private company, partnership, non-government organization (NGO) or charity, regardless of size. If you do not understand the purpose and aims of the organization and how it is currently performing, you cannot hope to be successful. Without a clear strategic direction:

- business plans will not be aligned;
- short term focus is likely to prevail, to the neglect of the long term;
- projects and other work might conflict;
- priorities might be confused or conflicting;
- decisions might be contradictory.

[1]The PMWJ Advances in Project Management series includes articles by authors of program and project management books published by Routledge worldwide. To view project management books published by Routledge publishers, click here. See this month's author profile at the end of this article.

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Not having a 'right way' of working might lead to:

- inadequate information for decision makers;
- too many projects started;
- overstretched resources;
- incompatible processes;
- roles and accountabilities becoming confused or omitted.

Any of the above problems could lead to organizational failure. A critical element of implementing your strategy is deciding the most appropriate objectives for an organization's portfolios and what the boundaries of those portfolios are.

Strategic and business planning context

Often the development of strategy is treated as external to portfolio management. I would, however, argue that the development of strategy and the defining of the portfolio should be part of the same activity. The reasoning for this is that if 'definition' is about setting objectives to support strategy, those who set the strategy should also set the objectives. Strategic alignment, a key tenet of portfolio management, is impossible without a clearly defined and communicated strategy. The interface between those who develop strategy and those who set a portfolio's objectives and the respective accountabilities must be clear. If business strategy and objective setting are undertaken in isolation, by separate teams, they are less likely to be aligned, leading to misunderstanding, crossed accountabilities and extra cost.

Definitions of the term 'portfolio'

Before looking at how the boundaries of a portfolio should be defined, it is helpful to consider the various definitions of 'portfolio' proposed by different organizations. In many cases, the definition used, can limit how people respond to and apply portfolio management.

APM Body of Knowledge (2019): a collection of projects and/or programmes used to structure and manage investments at an organizational or functional level to optimize strategic benefits or operational efficiency.

AXELOS' Management of Portfolios (2011): The totality of an organization's investment (or segment thereof) in the changes required to achieve its strategic objectives.

PMI (2017): Projects, programs, subsidiary portfolios and operations managed as a group to achieve strategic objectives.

ISO 21504, Project, programme and portfolio management — Guidance on portfolio management (2015): collection of portfolio components grouped together to facilitate their management to meet, in whole or in part, an organization's strategic objectives. It then defines portfolio component as: project, programme, portfolio, or 'other related work'.

The APM definition limits a portfolio to comprising only projects and programmes. AXELOS' definition is slightly wider as it includes anything that effects 'change'. PMI's definition is wider still and includes 'operations' within a portfolio. Finally, the ISO definition is the widest of all as it uses the term, 'other related work' as being part of a portfolio. With this definition, 'other related work' mean that anything considered relevant may be included within the portfolio. It therefore encompasses the other definitions and leaves the choice of what goes into a portfolio to the person who defines the portfolio[3]. Further, the ISO definition does not limit 'changing the business' to being undertaken as 'projects and programmes', separate to 'running the business'; it allows both activities to be undertaken using any suitable management framework, as long as it is defined.

Choosing the portfolio's scope and boundaries

As seen from the definitions above, there are many views on what a portfolio is. A portfolio sponsor or manager needs to understand where their portfolio sits in an organizational context and what its scope is. Does the portfolio cover the whole or a part of the organization? Is it simply the work undertaken by one function? Does the portfolio include 'business-as-usual' as a component, as well as programmes and projects? What else, other than programmes and projects, could be included in a portfolio? It is vital to understand the context because the management level above the portfolio should set the objectives (or, as a minimum approve those objectives) and define any constraints. Further, accountabilities should be traceable down and across the whole organization. For example, if the portfolio:

- covers an entire company, the objectives should be set and approved by the senior management team;
- covers a division or region in a company, the objectives should be set by the 'parent' company;
- is part of a higher-level portfolio, the objectives should be set by the sponsor of that higher-level portfolio.

Objectives need to reflect the portfolio's scope and boundaries; there is little point in giving a portfolio sponsor an objective but no influence over its achievement. A simple organization is likely to have just one portfolio, the entire organization. In this case, there is no need to decide what parts of the operation are in which portfolio. It is still necessary, however, to select the scope or extent of the activities to be included within a portfolio, what ISO refers to as 'portfolio

[3] In my book, *The Programme and Portfolio Workout*, I build on the ISO 21504 definition and use the term '**business portfolio**' to differentiate it from other definitions of portfolio which are more limiting. Business portfolio is defined as " . . . comprising current benefit generating business activities, together with a loosely coupled but tightly aligned portfolio of programmes, projects and other work, aimed at realizing the benefits of part of a business plan or strategy." Definitions are not sacrosanct; they evolve to reflect experience in practice and the intent of those defining them. Few definitions are 'wrong', they are simply 'differently right'.

components'. The following sections look at some common permutations, together with the advantages and pitfalls of each.

A portfolio of programmes and projects

A common approach taken is that a portfolio comprises just programmes and projects; people talk about the 'portfolio of programmes and projects' or 'project portfolio management'. This model relates to the first definition of portfolio (APM). As an example, Figure 1 shows an organization with five units (departments or functions, depending on the terminology used), where the portfolio (A) includes just the programmes and projects. All of unit V and the rest of the other units' activities (B) are run separately by the respective unit heads on traditional cost centre lines.

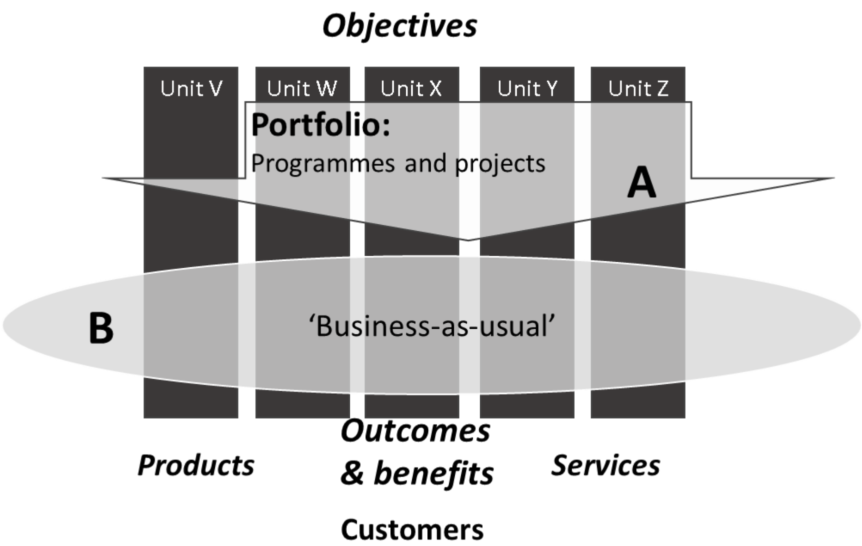

Figure 1 A portfolio which covers an organization's programmes and projects only

By managing the programmes and projects as a portfolio, the portfolio sponsor and manager can:

- ensure the programmes and projects are aligned;
- determine the scope of each to minimise interdependencies;
- make effective and efficient use of any dedicated resources.

In such a model, the programmes and projects, deliver into 'business-as-usual', the accountability for which is under the separate leadership of each unit head. The portfolio on its own would not, therefore, include everything needed to ensure the organization's strategy is realised. It is likely that some resources would need to be shared between the projects and business-as-usual; if so, it will need to be agreed who sets the priorities and makes decisions if there is any conflict. Many people from a project management background relate to this type of portfolio as it covers programmes and projects only, not 'other work', such as business-as-usual. It is, however, a weak and incomplete approach as in 'real-life', business-as-usual and the projects and programmes affect each other, not least because they draw on the same resources and have related risks.

A portfolio of programmes, projects and 'other work'

Notice that the fourth definition of a portfolio (ISO 21504) above includes 'other related work', implying business-as-usual can be included within the scope of a portfolio. By including business-as-usual in the scope of a portfolio, the portfolio sponsor can manage 'running the business' and 'changing the business' together, balancing resources, funding and risk across both elements and reacting to any sudden changes in the volume of business-as-usual work. How business-as-usual is broken down depends on the business model used, its associated value chain and business processes. Each business process should be associated with a value chain and treated as a specific category of 'other work'. Another advantage of using the term 'other work' is that techniques which do not fit under the headings of 'project' or 'business-as-usual' can be added to the portfolio. For example, 'other work' could be Six Sigma initiatives which are applied to current manufacturing operations. Another example could be 'agile development as usual', where agile development of software is continuous (such as at Spotify) and therefore not really a project (which is finite).

Figure 2 illustrates a portfolio (A) which includes 'processes and other work' (which includes 'business-as-usual'). The processes would be cross-functional and focussed on customer needs; they would be 'joined up' and represent the flow of work (across the units) needed to operate the business. This approach is more responsive than one where each unit has its own targets and processes and 'coordinates' across unit boundaries. The portfolio is run on the horizontal dimension of the organizational matrix, driven by customer need and value. Note that the portfolio still only covers part of the activities for four units; all of unit V and some parts of units W, X, Y and Z (B) are still outside the scope of the portfolio; these would be run on traditional cost centre lines. The portfolio's funds would be allocated on a project by project and process by process (or portfolio component by portfolio component) basis, rather than to each unit's cost centre. Direction would be given by a portfolio sponsor and programme/project sponsor (or business lead for other work) rather than divided between each unit manager. This avoids the tendency of unit managers to sub-optimise their part of the operations to meet their budget targets and what they see as their objectives. This approach can be used where central services, such as for HR and finance are managed as traditional costs centres, or when the portfolio only covers part of the operations, such as one product or service line.

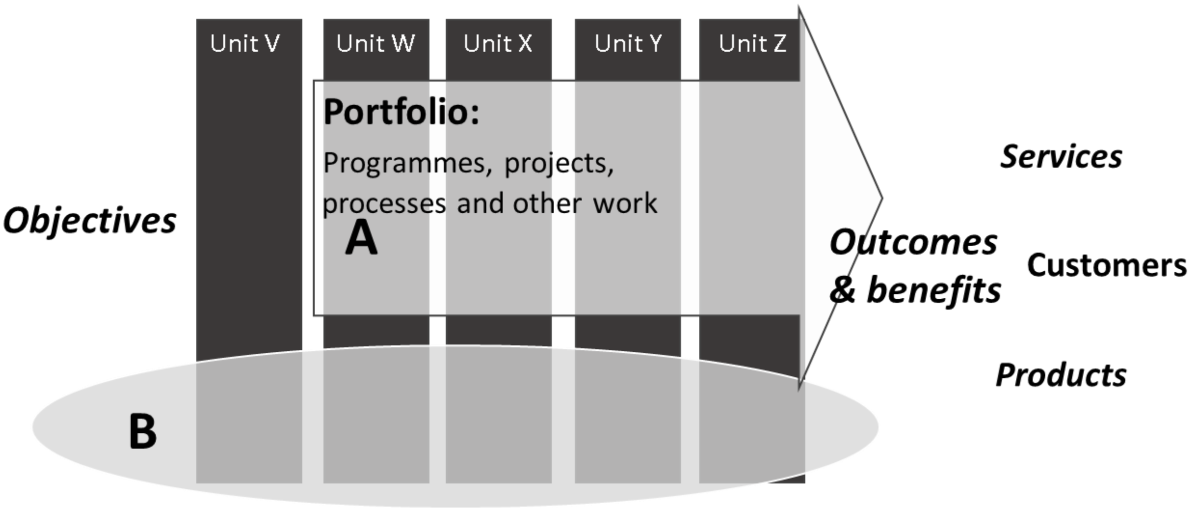

Figure 2 A portfolio which covers programmes, projects and 'other work', being part of an organization's business-as-usual operations

A complete business-driven portfolio

A complete business-driven portfolio is one where the portfolio covers the entire organization, as shown in Figure 3. Organizations might move to this complete model when they have common ERP and finance platforms, as is increasingly the case in today's connected businesses. Unless the organization has such supporting systems to enable true matrix management, business agility is not achievable.

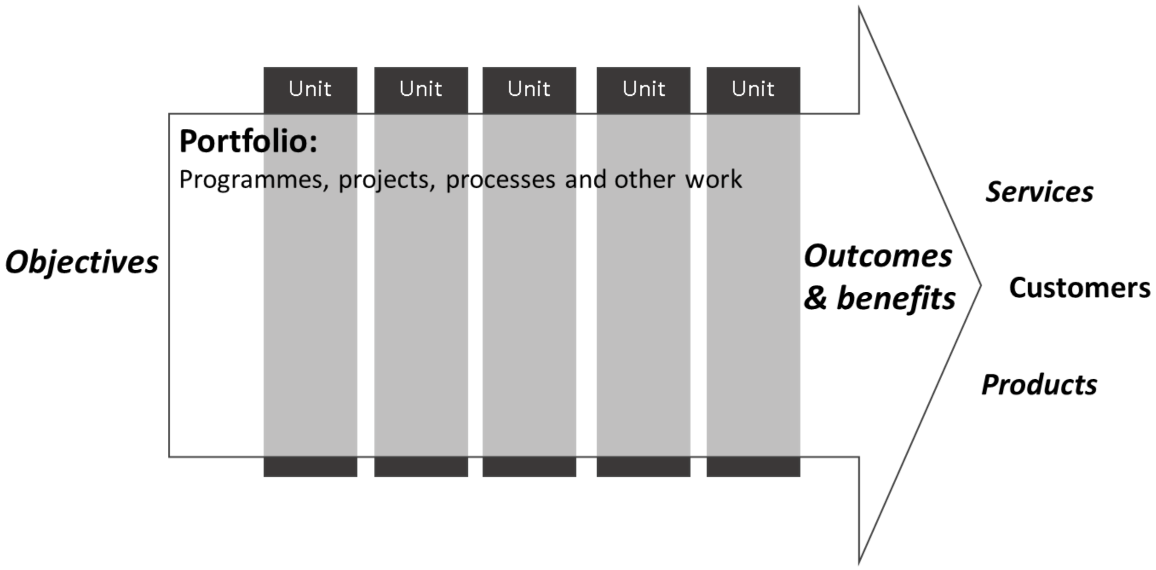

Figure 3 A portfolio which covers the entirety of an organization.

An organization with a number of portfolios

An organization always has at least one portfolio which is represented by the organization itself. In a large and diverse organization, however, it is often necessary to have more than one portfolio (what are effectively sub-portfolios), each of which is directed toward particular objectives. For example, one large multinational company I worked with had five portfolios. Three portfolios were targeted at different market segments (major corporate/government, SMEs and retail), one at service development (as most of the services in the customer segments were built on the same platforms) and one for the central services, like finance, facilities and HR. Each of these had sub portfolios, reflecting the objectives (outcomes) they were targeted with.

The scope of the portfolios was such that interdependencies between them were minimised. The service development and central services were separated out as it was not cost effective for each of the three market segments to have its own platforms. Figure 4 illustrates an organization with multiple portfolios. Note, the portfolio in Figure 4, could be treated as a single portfolio with sub-portfolios; as long as the relationships and accountabilities are clear and traceable, labelling the levels is a matter of choice.

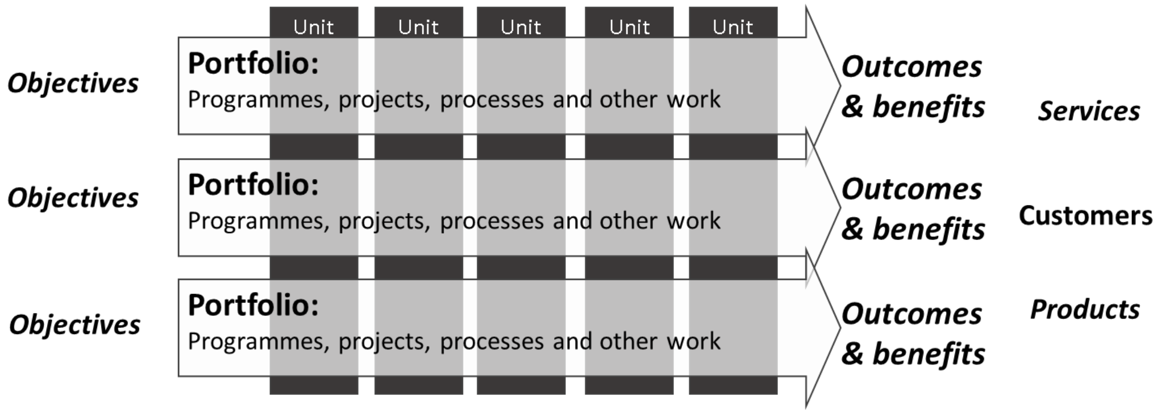

Figure 4 An organization with three portfolios.

When a 'portfolio' is useful but is not a portfolio at all

If the portfolio is the collection of work undertaken by a particular function, say 'IT projects' undertaken by an internal IT department, the question of who sets objectives can become problematic. Effective portfolio management should be value driven for the benefit of the organization as a whole. An IT portfolio, as described in Figure 5, is simply a collection of tasks undertaken by IT specialists for other parts of the organization. IT specialists, however, should not be setting objectives for, say customer services, manufacturing or financial processing, but providing capabilities to meet the needs of those groups, each of which should have their own business objectives. The objective of 'portfolio management' in such cases is usually to optimise the use of the IT department's resources and budgets. The danger of treating this type of portfolio as a value-based portfolio, is that the IT department is unlikely to have sufficient specialist experience in all the disciplines to set their objectives and direction. Further, such a portfolio is likely to be driven by the IT department's costs and efficiency targets rather than overall business need, thereby deflecting the direction of the organization away from what really needs to be done. To avoid confusion, it is best not to call such an entity a 'portfolio[4]'; it is simply the work the IT department does. Whilst 'IT' has been used as an example here, the same logic applies to any functional group.

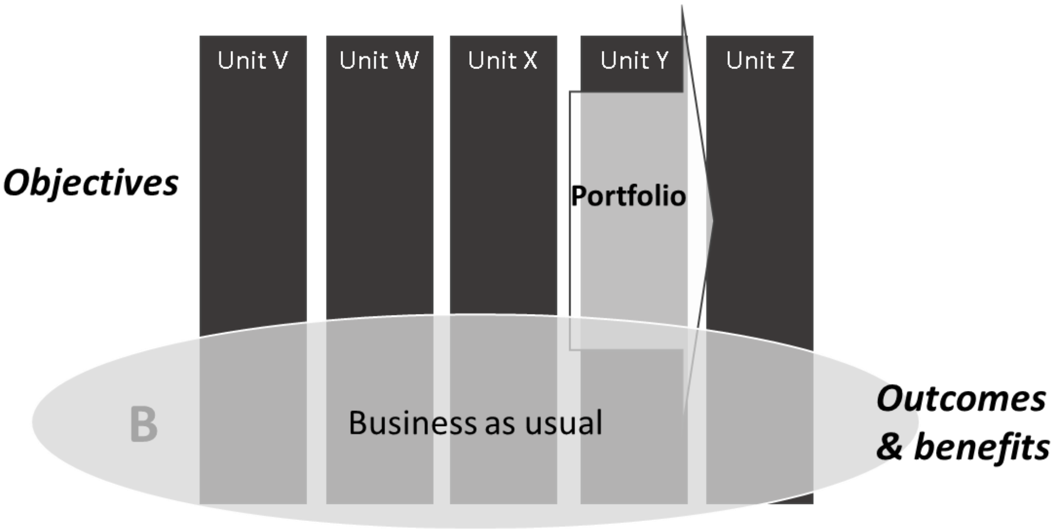

Figure 5 Not really a business-driven portfolio at all

Conclusion

There is no set pattern for defining a portfolio's scope and boundaries; each needs to be designed to suit its context; the permutations are limitless. The aim is to run the organization driven by customer needs and value, rather than on a purely cost constrained basis. Each portfolio or sub-portfolio should be as independent as possible (i.e. with minimum interdependencies), bearing in mind the cost effectiveness of shared services. By taking this approach, direction and decisions should be focussed on value and benefits. This avoids the situation where decisions are driven by each unit's manager, based on individual cost centre budgets and annually determined objectives. Such decisions are not necessarily aligned and frequently sub-optimal; further, such objectives can become out of date, especially in fast moving environments. In this respect, if an organization's leaders want to be truly 'business agile', they should aim towards the complete business driven portfolio model in Figures 3 and 4.

References for further reading

Buttrick, R. The Programme and Portfolio Workout, 1st edition (2020). Routledge

HM Government. GovS 002. Project delivery functional standard (2018).

[4] This is an example where the plain English use of a word is correct but, in the context of the topic of this paper, can be confusing. This is why it is important for each organization have an agreed definition for 'portfolio' which suits them and which is then used consistently throughout the organization.

BS ISO 21504:2015. Project, programme and portfolio management — Guidance on portfolio management (2015)

BS ISO 21505:2017. Project, programme and portfolio management — Guidance on governance (2017)

AXELOS. Management of Portfolios (2011)

Association for Project Management. APM Body of Knowledge (2019)

Project Management Institute. PMI Lexicon of Project Management Terms, version 3.2 (2017),

About this article

This article is adapted from Chapter 12 of *The Programme and Portfolio Workout* which provides practical advice and techniques to direct and manage your business in a structured, yet agile, way. Aimed at both business and programme managers, the book takes you through different approaches to portfolio, programme and project management and shows you how they can work together. The practical approach is enhanced throughout with a series of 'Workouts': exercises, techniques and checklists to help you put the book's advice into practice. The Workouts are supported by an on-line resource of tools.

The book contains a wealth of material on the governance and management of portfolio and programmes, including how to work with standards and methods, such as GovS 002, ISO 21503, ISO 21504, BS6079 and MoP. The companion to this book, *The Project Workout*, deals with directing and managing individual projects. It uses the same concepts and approaches so that you know, when directing your portfolio or programme, that your sponsors and managers are taking the same approach.

About the Author

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Robert Buttrick is an independent advisor on portfolio, programme and project management, specialising in business-driven methods, processes and standards. Recent clients include the UK's Cabinet Office, Network Rail, and AXELOS. He is and a Visiting Teaching Fellow at the University of Warwick, a member of the British Standards Institute's committee MS2 for project management and is a UK Principal Expert on the equivalent ISO technical committee, TC258 (dealing with international standards on portfolio, programme and project management.)

As well as being the author of "The Programme and Portfolio Workout" and the "The Project Workout", Robert has worked in one of the world's most turbulent and challenging industrial sectors, telecommunications, where he has been accountable for creating and running project-based frameworks for managing change, involving the direction of portfolios of over 2500 projects, totalling £4bn spend per year. Before this, Robert was with PA Consulting Group, a management and technology consultancy. There, he specialised in business-led project management, advising clients such as TSB Bank, National Rivers Authority, Property Services Agency, Avon Industrial Polymers, National Westminster Bank and RHM.

After graduating from the University of Liverpool with a first class honours degree, he joined Sir Alexander Gibb & Partners (now Jacobs) who provided consulting, design and management services for infrastructure, working in countries as diverse as Kenya, Mauritius, Yemen, Senegal and Sudan. He has also worked with the World Bank, in Washington DC on investment appraisals for major development projects.

Robert is a Master of Business Administration (Henley Management College), a Member of the Chartered Institute of Marketing, Chartered Engineer and a Member of the Institution of Civil Engineers. In 2010, Robert received a Distinguished Service Certificate from the BSI for services to national and international project management standards, and in 2013 he was made an Honorary Fellow of the Association for Project Management.