

'Portfolios' and the project management literature

By Alan Stretton

ABSTRACT

This paper looks at some of the different ways the word 'portfolio' is used in the program/project management literature. The first usage examined is strategic program/project portfolios, and we look at perceived problems with varying descriptors of this entity. A compacted model of the composition of 'strategic portfolios' is then presented. The paper goes on to look at what two authors have described as 'portfolio programmes', and links these with components of the strategic portfolio model. Three totally different definitions of 'project portfolio' are then discussed, focusing on how the component projects are seen to be related. One says they are inter-dependent, which is seen as synonymous with a program. The second says the projects are independent, and the third says they could be either. All three are linked with components of the strategic portfolio model. These three totally different understandings of the same descriptor are perhaps the most striking example of the conflicting and confusing ways the word 'portfolio' is used in the program/ project literature. A possible way of overcoming such problems is suggested, but it is conceded that a consolidated solution is unlikely to be found in the near future.

INTRODUCTION

Like programmes, portfolios do not have a uniform homogeneous definition. The term 'portfolio' has been in use for some time and is used across different sectors and throughout many and diverse organisations. It therefore has a multiplicity of meanings.
(Aritua et al 2008)

This paper is mainly concerned with some of the different ways 'portfolio' is used in the program/project literature. There is little, if any, agreement about the nature of portfolios in the program/project context. Indeed, the descriptor 'portfolio' is used in so many different ways in the program/project literature that the following analysis is unlikely to cover all of them. We first look at strategic portfolios of programs/projects.

STRATEGIC PORTFOLIOS – of programs/projects

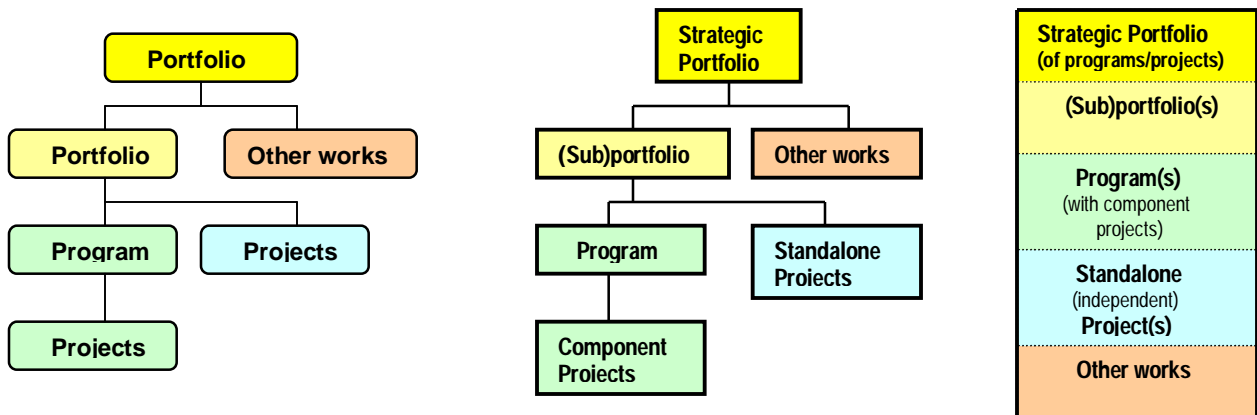
A portfolio is a collection of components (i.e. projects, programs, portfolios and other work such as maintenance and ongoing operations) that are grouped together to facilitate the effective management of the work to meet strategic business objectives. The projects or programs within a portfolio may not necessarily be interdependent or directly related and are in fact normally unrelated, although they may share a common resources pool or compete for funding.
(PMI 2008b:9)

The Standard for Program Management (PMI 2008b) and *The Standard for Portfolio Management* (PMI 2008c) use the single descriptor ‘portfolio’ for what some others (e.g. Van Den Broecke 2005) have described as a ‘strategic portfolio’. Indeed, it is probably more properly described as a ‘strategic program/project portfolio’. Such a descriptor would help non-project people better understand what these standards are really about. The lack of identification of the nature of ‘portfolio’ in the title of PMI 2008c drew the following comment from Archibald 2009.

(As an aside, I would like to point out that the omission of the words “project” and “program” from the title of this PMI standard is indicative of the less-than-broad perspective that seems to pervade PMI today. If you hand this PMI standard to financial portfolio managers on Wall Street, for example, it will no doubt produce some interesting reactions. Or Google the term “portfolio management” and you will find a wide variety of uses of that term, most of which are in the financial management field.)

This, indeed, should be of more than a little concern for PMI, and it is hoped that this may be rectified in future editions. In this paper I will use Van Den Broecke’s descriptor ‘strategic portfolio’ to distinguish it from other uses of ‘portfolio’ to be discussed shortly.

In a recent paper in this journal (Stretton 2012e) I discussed the importance of distinguishing between ‘component’ projects of a program, and independent, or ‘standalone’ projects. I then illustrated how such a distinction would be portrayed in a high level view of strategic portfolios, programs and projects as depicted in recent PMI standards. The following figures are an expanded version of this, and include a compacted model of strategic portfolios and their components, for later associative purposes.



Adapted from PMI 2008b Figure 1-3. Portfolios, programs and projects – High level view

Adapted PMI Figure 1-3 with augmented descriptors

Compacted model of components of strategic portfolios

Figure 1: Three depictions of the components of strategic portfolios

PORTFOLIO PROGRAMMES

Two authors, Pellegrinelli 1997 and Murray-Webster & Thiry 2000, associate the word 'portfolio' with programs, using the descriptor 'portfolio programmes' in the following sense as described by Pellegrinelli.

Portfolio programmes - coordinating relatively independent projects, but with a common resource or skill base

I have adopted the view of PMI 2008b:4 that

If the projects have separate goals and are only related by common funding, technology, stakeholders, or resources, then these efforts are better managed as a portfolio rather than as a program.

I interpret PMI's "managed as a portfolio" as meaning that these independent, or 'standalone' projects become a component of a strategic portfolio, and are managed as part of the strategic portfolio management process, as will be illustrated in Figure 2.

THREE DEFINITIONS OF PROJECT PORTFOLIO AND THEIR MANAGEMENT

In Stretton 2010m I cited 14 authors who use the terminology 'project portfolio' (or 'portfolio of projects'). There are three quite different in which these are defined in terms of how the component projects relate to one another.

Definition 1: Component projects are inter-dependent

Project portfolio management: The management of interfaces between projects, and the coordination of collections of projects in accordance with resource and other constraints
(Elonen & Artto 2003)

This definition focuses particularly on management of interfaces between projects, which directly implies that they are inter-dependent. The latter is a key ingredient of most definitions/descriptions of programs. For example, Maylor et al 2006 say

The emerging definition of a programme appears to involve the co-ordinated management of a series of inter-connected projects and other non-project work, for the delivery of a specific package of benefits ...

PMI 2008b:6 expands on the inter-connectedness of a program's component projects as follows:

In programs, it is important to integrate, monitor, and control the interdependencies among the components. Program management focuses on these project interdependencies and helps to determine the optimal approach for managing them.

Project portfolios in which the component projects are inter-dependent are, to all intents and purposes, identical with programs, and should be recognized as such.

The following is one of several definitions which say that a program consists of a portfolio of projects. In this case the full definition indicates that a portfolio of projects is effectively the same as a program.

A program consists of a portfolio of projects, defining a set of related activities, both for the IT and business side, that have defined goals and benefits, and need to be controlled as a whole.

Thus, Definition 1 effectively says that a project portfolio is identical with a program. In the context of strategic portfolios, it would be managed as a program.

Definition 2: Component projects are independent

Portfolio Management...is the management of a number of projects that do not share a common objective.

Dixon's definition comes from the Fourth Edition of APM's *Project Management Body of Knowledge*. This definition was not repeated in the Fifth Edition of 2006 (APM 2006), which instead adopted a definition of what I have described as 'strategic portfolios,' as discussed earlier. It is therefore probably best to discount this particular definition.

Project portfolio management: the art and science of applying a set of knowledge, skills, tools, and techniques to a collection of projects to meet or exceed the needs and expectations of an organization's investment strategy.

(Dye & Pennypacker 1999)

This definition does not mention any inter-dependence between component projects, so (rightly or wrongly) I have classed these projects as being independent, or 'standalone'.

Program management is the management of a portfolio of projects all of which aim towards the corporate objectives

This is another definition which says that a program consists of a portfolio of projects. But, in this case there is no mention of any inter-dependence between projects in the full definition, and I have therefore classed these projects as 'standalone' – and they would be managed as such within a strategic portfolio.

Definition 3: Component projects could be either of the above

A project portfolio is a collection of projects to be managed concurrently under a single management umbrella where each project may be related or independent of the others.

(Martinsuo & Dietrich 2002; Thiry 2004)

This definition comes from two sources, and is quite explicit about the either/or aspect. Therefore these projects could be managed within a program context, or as standalone projects, within a strategic portfolio.

The most worrying aspect of the above is the three totally different understandings of the nature of project portfolios, or portfolios of projects.

SUMMARY

Summarising the above, the relationships of the various usages/understandings of project and program portfolios to strategic portfolios can be represented as follows.

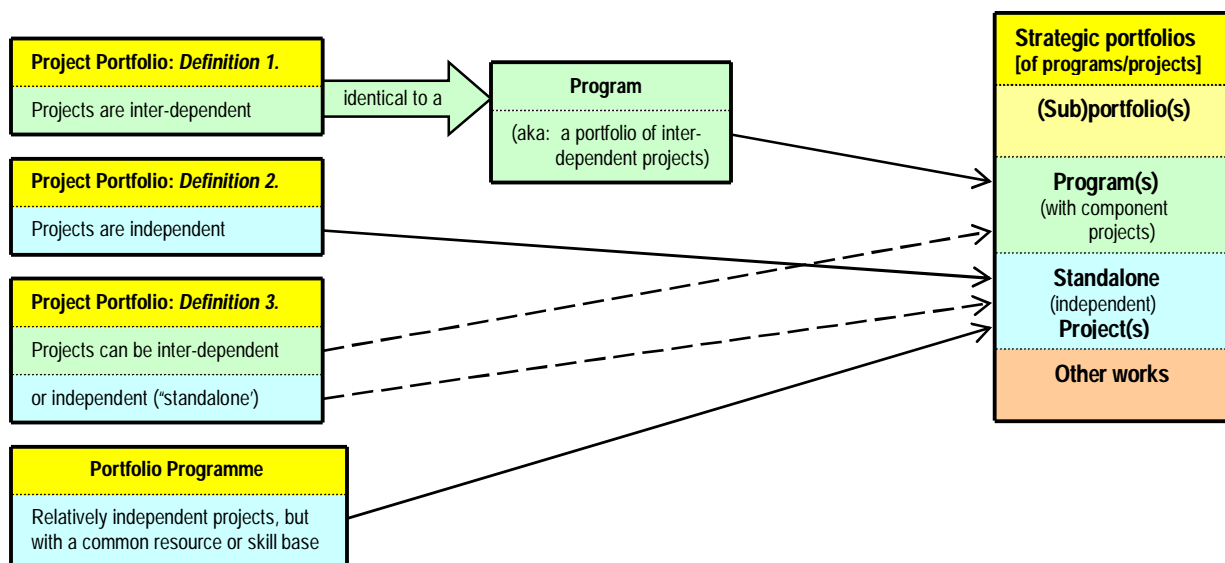


Figure 2: Linking various uses of ‘portfolio’ in the project management literature

CONCLUSION

Figure 2 broadly illustrates how the various usages of ‘portfolio’ can be seen as linking together. However, it doesn’t solve the problem of what to do about the three different definitions of project portfolio (or the portfolio program definition). It only shows how these converge into becoming components of a strategic program/project portfolio.

My personal preference would be to eliminate all mention of project portfolios etc from the left hand side, and to describe these entities either as programs or groups of standalone projects – albeit with appropriate qualifiers, such as where they stand in a strategic portfolio. However, I am less than optimistic that this is likely to happen in the near future. People tend to get locked in to their own terminologies – and in any case ‘portfolio’ is a common usage word, and it would not seem realistic to attempt to control its use to any substantial extent. But hopefully someone in the future will find a way of solving this terminological problem.

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