Establishing portfolio management governance: Key components

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October 16, 2006

from The Rational Edge: The fifth installment in a series of articles on portfolio management, this article provides an overview and discussion of key concepts and ideas relative to the need for and development of governing policies, capabilities, structures, and other components required to create a "mechanism" for executive oversight and sustained management of portfolio management for initiatives as an organizational process.

Author's note: This article can be read without reference to my other articles in this series on portfolio management. If you are new to the subject of portfolio management, it may be useful to refer back to the previous articles: The article in the October 2005 edition of The Rational Edge introduced the topic of portfolio management and provided a number of definitions. The article in the November 2005 edition provided and defined key principles (which we call "essentials") for the successful application of portfolio management to the initiatives in the enterprise. In March 2006, I provided an overview of the initial release by IBM Rational of a new methodology for portfolio management, and in May 2006, I described how to introduce portfolio management into an organization.

Portfolio management: A summary

Morgan Stanley's Dictionary of Financial Terms offers the following explanation of the term portfolio:

If you own more than one security, you have an investment portfolio. You build the portfolio by buying additional stocks, bonds, mutual funds, or other investments. Your goal is to increase the portfolio's value by selecting investments that you believe will go up in price.
According to modern portfolio theory, you can reduce your investment risk by creating a diversified portfolio that includes enough different types, or classes, of securities so that at least some of them may produce strong returns in any economic climate.

In a non-financial business context, projects and initiatives are the instruments of investment. An initiative, in the simplest sense, is a body of work with:

- A specific (and limited) collection of needed results or work products.
- A group of people who are responsible for executing the initiative and use resources, such as funding.
- A defined beginning and end.

Managers can group together a number of initiatives into a portfolio that supports a business segment, product, or product line (or some other segmentation scheme).

These efforts are goal-driven; that is, they support major goals and/or components of the enterprise's business strategy.

Managers must continually choose among competing initiatives (i.e., manage the organization's investments), selecting those that best support and enable diverse business goals (i.e., they diversify investment risk). They must also manage their investments by providing continuing oversight and decision-making about which initiatives to undertake, which to continue, and which to reject or discontinue.

**Governance: An overview**

If you ask five people to define the term "governance," you will likely get some seven partial definitions mixed together with a few "Huh?"s.

Governance is one of those terms which "everyone knows" until you try to reduce it to a few simple sentences. Accordingly, a definition seems a good place to begin this article. We will start with a solid understanding of governance in general; then we'll move confidently to the subject of governance specifically limited to the context of portfolio management.

Let's start with a dictionary definition:

One definition\(^2\) provided is:

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gov'ern'ance  
-noun  
1. government; exercise of authority; control.  
2. a method or system of government or management.  
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A competing dictionary\(^3\) tells us that governance is:

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-noun  
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Establishing portfolio management governance: Key components
The act, process, or power of governing

Making use of both dictionary definitions, then, it is my intent in this article to deal with key concepts around the exercise of authority, or of control. Further, the article provides insight into the act of exercising this authority, the underlying process, and the power(s) of that exercise. These concepts and insights are within the context of governance for the exercise of portfolio management as an organizational process.

Specifically, this discussion is about portfolio management as applied primarily to initiatives or projects. However, this discussion is largely applicable to the use of portfolio management practices in other areas, such as products or software applications.

This article identifies ideas and concepts, but it is not one aimed at a description of the specific steps, roles, and work products needed to implement portfolio management governance. I hope that the identified ideas and concepts provide a springboard for needed executive discussion and review in this important area of organizational governance.

What is, then, the connection between the subject of this article -- governance -- and the space of portfolio management for initiatives or projects? Please note, from this point and throughout the article, for convenience, we will simply refer to "portfolio management," meaning "portfolio management for initiatives or projects."

In the introduction to this article, I noted that:

-Managers can group together a number of initiatives into a portfolio that supports a business segment, product, or product line (or some other segmentation scheme).

And that:

-They (the managers) must also manage their investments by providing continuing oversight and decision-making about which initiatives to undertake, which to continue, and which to reject or discontinue.

It seems that, given our definition of governance, most organizations have already taken care to institute such a function by appointing managers and giving them authority to manage their initiatives investments. Right? Well, not entirely.

Managers do not exist in isolation. They are part of either a business or governmental entity -- that is, a corporation or a government agency. These are legal entities. As part of their operation, they define and authorize certain policies, and delegate the authority to implement them. Further, corporations and governmental agencies have duties and obligations, and (in varying degrees) are regulated.

In recent years in the United States, we have seen some spectacular corporate and public accountancy failures, ethical violations, and illegal actions, as reported in the press. We have also seen new laws (e.g., Sarbanes-Oxley) that provide for substantial penalties related to the implementation and use of internal controls for financial reporting. It is within this context that calls for "better governance" have originated.
Simply installing managers and giving to them authority to "manage" their investments in initiatives is no longer considered going far enough to provide better governance. Worse, simply installing managers and granting them authority may result in a variety of standards and practices applied to the organization's initiatives, and to the assessment of their continuing value. The variety of standards and practices may (by design or inadvertently) expose the organization to risk as a result of poor information reaching the executive level as an input to enable effective oversight.

It is necessary, then, to create some mechanism for governance that will provide a framework for action, for information, and for decision-making as it affects initiatives. These initiatives are created to enable and to achieve the goals of the organization, and are organized into portfolios for management and control.

More about this mechanism of governance in the next section.

A portfolio management governance mechanism

As noted above, we need to apply the concept of governance within the portfolio management context. And we are going to apply this concept by means of some governance "mechanism."

Let's be clear: Governance, as applied to business or governmental operations, is hardly an entirely new idea. Corporate entities generally put in place a structure that consists of a board of directors, an executive office of a chief executive officer (CEO), and a number of senior "CX"-level executives: chief financial officer, chief counsel, and so on. This structure, with its defined roles (and their incumbents), provides the general or overall governance that drives the business direction of the corporation.

Beyond that general governance, there is the need for exercising specifically focused governance activities. For example, a corporation engages in a number of initiatives and efforts that require the expenditure of large capital sums. The goals, the justification, the expected returns for proposed initiatives and efforts must be thoroughly examined (and approved). These must be in the best interest of the enterprise and also conform to applicable laws and regulations.

Accordingly, those who exercise general or overall governance will create permanent (or temporary) entities or functions. Specific or focused authority to exercise an aspect of governance is delegated to these entities or functions.

In this example (initiatives that require the expenditure of large capital sums), an investment review board is created as part of the overall governance structure of the enterprise to review and approve proposals to spend significant capital sums.

This concept of specific or focused authority -- applied to govern the application of portfolio management to the organization's initiatives -- is where discussion ensues as to "how" this mechanism must operate and "who" must operate it.

Typically, the enterprise has determined to make use of the discipline and its practices of portfolio management as a means to ensure the alignment of new and ongoing initiatives with the business
strategy and direction. Portfolio management is also seen as a vehicle for providing improved insight and oversight into the initiatives contained within the portfolios.

In order to ensure that the proper results from an adoption of portfolio management are obtained, authority is delegated, entities or functions are created, and policies and practices are developed and implemented. Additionally, roles and responsibilities are defined and filled, and decision-making rules and powers are identified. In other words, we establish portfolio management governance. (If you return to the definitions of governance, you'll see that this conforms to our definitions.)

**Who plans and carries out the work?**

Most typically, some need or deficiency in the strategic alignment of projects and initiatives or in deriving "value" from these projects and initiatives comes to the attention of the executive level. An executive oversight group commissions an investigation into solutions. This is delegated to one member of the executive oversight group for execution. The executive forms some working group or investigation team. The team identifies the practices of portfolio management as offering a potential solution. With discussion and agreement at the executive level, a "project" is initiated to select among competing consultants, tools vendors, and solutions in the marketplace for defining and establishing portfolio management governance. This is a quick snapshot of a scenario for who does the work to identify the needs and a solution for the adoption of portfolio management.

It is not, unfortunately, quite as simple as the statements made in the preceding paragraph to actually establish the needed portfolio management governance.

Goals must be identified to be met by the established governance. Metrics and measurements must be defined and validated as providing feedback that the goals are -- in actual fact -- being achieved. Various governing models must be reviewed, and their "fit" into the existing corporate structure, ways-of-working, and corporate culture understood and agreed. The governance "model" or "framework" needs to be drawn, and the various functions and roles agreed.

Ideally the work described above is planned and carried out by a dedicated team of business and IT managers, external portfolio management consultants, and subject matter experts. This work is under the overall direction of a member of the executive oversight committee.

This article, in the next section, provides some thoughts as to the process and the needed results required to be effective in the definition, validation, consensus-building, and implementation around governance for the portfolio management domain in the enterprise.

**Portfolio management vs. portfolio management governance: What is the difference?**

I want to ensure that there is no confusion between the goals of portfolio management and those of portfolio management governance.

Portfolio management is concerned with effective, timely, and continuing investment decisions about initiatives that enable goals and goals components of the enterprise business strategy.
Portfolio management governance, on the other hand, is both the structure and the exercise of authority for the initiatives and the portfolios within the portfolio management domain, which defines and enables decision-making, assesses metrics on initiatives value and alignment with business strategy, and is responsible for effective and legitimate oversight for the contributions to business success of these initiatives and portfolios.

What do we mean by "mechanism"?

Before I end this section of the article, I'd also like to discuss the term "mechanism."

If we return to our dictionary definitions of governance, we find that they embrace multiple components. These include:

- Exercise of authority
- Actions (the act of governing)
- Government -- a structure or function
- Process definition -- the process of governing
- Power -- or the authority to decide or to compel

Inherent in these components are...other components. These other components include: policies or principles (in political governance, a constitution, for example), roles and responsibilities, an organizational structure, metrics, and feedback processes to provide information, and so on.

As a convenience, I use the term "mechanism," as in the phrase "governance mechanism" to be all-inclusive of the components identified above.

Establishment of portfolio management governance: Key components

A discussion of the establishment of portfolio management governance needs to be "grounded." That is, it needs to proceed from a well-understood foundation set of concepts or ideas.

A work-in-progress inside IBM Rational identifies a number of key concepts that provide this grounding, or foundation. And we suggest that the process of establishing portfolio management governance take account of these key concepts. For each, the results achieved through the establishment effort must provide policies, standards, structures, exercise practices, definition of expected results, and feedback devices to assess effective and correct usage, and the means to make adjustments.

These key components are:

- A set of governance principles
- A governance framework or structure
- Controls implementation that enables and sustains an oversight capability
- Definition of decision-making authority
- Ensuring the legitimate exercise of authority and decision-making
• **Identification of needed enabling and sustaining functions, and governing roles and responsibilities**

A review of each of the key components provides insight into various aspects of the governance establishment needs and work effort.

**A set of portfolio management governance principles**

The exercise of portfolio management governance must proceed from some shared vision of what governance is, together with its role, its aims, and its expected results. At a practical level, this vision must align with the realities of the corporate culture and what is possible within that culture.

Strong and centralized portfolio management governance, for example, may be difficult to implement and less than effective within a corporate culture that is driven by consensus. Directives and decisions issued from this centralized governance function will be debated outside the range of that governance and likely (if at all) implemented much differently than intended.

As part of a portfolio management adoption effort, there is a need to review multiple successful portfolio management governance experiences and, as part of this review, to ask the question: "Will this work in practice within our enterprise values and ways-of-working?"

The elements in the governance experiences that are accepted as "workable" or "best-fit" for the organization are best expressed in a set of portfolio management "governance principles" for the enterprise. These portfolio management governance principles may be in the form of statements, a bullet-list of items, or a written document. An example of such a governance statement is:

> *Decisions about the future of an initiative, expressed in a continue/change/discontinue decision, will be made as a collective executive effort, not by a single executive.*

This statement defines (and commits to) a principle about major decisions; and this principle will have to be reflected in the roles, decision-making authority, and in the agreed governance structure for the exercise of portfolio management within the enterprise.

Within the statement of portfolio management principles, there is also the need to be explicit as to the ethical and legal values and behavior that executive management requires when the authority and responsibilities of this governance are exercised. More on this later.

**Governance framework or structure**

Governance is exercised within a defined and published structure or framework. This allows those both inside and outside this structure to arrive at the same expectations around roles and authority. A common artifact of a governance framework or structure is an organization chart. The example shown in Figure 1 uses a structure within a large-scale program effort as a model.
Figure 1: Sample organization chart -- a familiar structure identifying reporting relationships and (by inference) some decision-making authority

Because we understand the conventions of an organization chart, this framework tells us that, for example, John Magee reports to Danielle Lee. Also, since we understand the usages of an organization chart, we know that Brian McLean is not in the direct line of authority for decision-making as part of the Renaissance Program. These two points are clear to any reader or user of this organization chart (provided they understand the conventions and usages of an organization chart).

Similarly, with the establishment of portfolio management governance, a structure is defined that provides information, clarity, and answers for such questions as those identified above. These questions include: "Who reports to whom?" and "Who is (and is not) included in the decision-making process?"

The act of defining a portfolio management governance structure will raise -- which means it must then address -- significant questions about governing portfolios and initiatives. The result of this definition effort, when effectively carried out, is reduced to a picture (or other form) that is simple and (mostly) unambiguous. However, this simplicity and clarity results from extensive discussion, some negotiation, and an effort to achieve consensus. It is the discussion and consensus-building that matters (more than the actual "picture") if the governing structure is to be workable and accepted by all.

The "visible" results for this act of defining a portfolio management structure would include such work products as:

- A mission statement for the governance entity
- Roles identification and descriptions
- Definition of responsibilities
- A RACI chart (responsible, accountable, consulted, informed) for decision-making
- A list and description of major functions
Controls implementation

It would be nice if the effort to define and to implement a portfolio governance mechanism took the form of: define, agree, implement, and use forever! But this is seldom the case. Things that seem simple and logical at the time of definition may not work as well in practice. Internal and external events may affect the effectiveness (or relevance) of the governing mechanism. The simple impact of change over time may require tinkering and adjusting.

Being prepared and equipped to address the impact and needed changes arising from the implementation of a governance framework requires the definition and implementation of sub-mechanisms (and likely software tools). These collect both information and operational feedback together with providing a capability to interpret the meaning of the information or feedback, and they give an additional capability to define and to direct change. In short, a feedback and control system is required.

A significant part of the development of a feedback and control system is the identification of the measures and metrics that need to be identified and collected. Once collected, these measures and metrics must be validated as providing useful and important information that can help guide the governing body to direct change.

It is useful to address controls and the definition of measures in two contexts:

First, there are controls and measures that qualify that the portfolio management governance mechanism is effective. These ensure that it is fulfilling the identified goals and vision of portfolio management governance.

Second, there are controls and metrics that qualify that the portfolio management mechanism is operating within agreed parameters (correct and allowable operation).

In summary, continuous operation of the mechanism of portfolio management governance requires a continuing system of information, feedback, and metrics, together with the structures and authority to make on-going adjustments to that mechanism.

Decision-making authority

Earlier in this article, I mentioned some of the things that portfolio managers do. These are:

- Group initiatives into portfolios
- Ensure initiatives are well-aligned with business goals
- Choose among competing initiatives (in multiple contexts)
- Exercise continuing oversight
- Exercise continuing decision-making

An essential component for all of these actions (stated explicitly in the last one) is the ability and the authority to make decisions. A proportion of these decisions has significant impact in many dimensions across the enterprise.

For example, suppose that a recommendation is made to cancel a major initiative linked to the Number One business goal of the organization. If carried out, the recommendation would have
significant impact across the organization, involving, for example, the business direction, major capital investment, application of major resources, and contracts that bind the organization. Ordinary business prudence suggests that the lines of authority and the power to make (or to recommend) decisions with significant impact be clear, specific, and traceable.

In certain industries (or governmental entities), actions and decisions that result in such major impact may be subject to audit, external review, or have legal ramifications.

It is important for decision-making authority, then, just as with the portfolio management governance structure, to produce simple artifacts that capture complex discussion, negotiation, and consensus.

These artifacts can take the form (among others) of a decision authority document, a set of RACI charts, or a decision-rights matrix as shown in Figure 2. As with the example in Figure 1, this is drawn from a large-scale program effort.

<table>
<thead>
<tr>
<th>Role name</th>
<th>Decision major area</th>
<th>Decision and subject</th>
<th>Decision qualifiers</th>
</tr>
</thead>
<tbody>
<tr>
<td>Program sponsor</td>
<td>Program boundaries</td>
<td>Changes in scope</td>
<td>Final authority on scope changes</td>
</tr>
<tr>
<td></td>
<td>Budget/capital budget/expenses</td>
<td>Approval of capital expenditures</td>
<td>None</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Approval of single item</td>
<td>$5,000+</td>
</tr>
<tr>
<td>Program steering committee</td>
<td>Program boundaries</td>
<td>Changes in scope</td>
<td>Consulted and advised on changes</td>
</tr>
<tr>
<td></td>
<td>Budget</td>
<td>Consulted and advised on changes</td>
<td>Advised of changes and variances</td>
</tr>
</tbody>
</table>

**Figure 2: Sample decision-rights matrix**

As you can see in Figure 2, a decision-rights matrix names each of the roles within the governance structure. For each listed role, a number of major decision areas are named. Within each major decision area, specific needed decisions or the subject of needed decisions are named. Finally, for each needed decision or subject area, the actual authority limits (identified as decision-qualifiers) are provided.

The results of discussions and negotiation (and possibly regulatory or legal prescriptions) around allowable authority are reduced, as shown in Figure 2, to a clear and (mostly) unambiguous structure. Within the exercise of the practices of portfolio management, such a simple artifact makes clear to those who need to obtain a decision where the authority for that decision is vested within the overall governing mechanism.

Portfolio management is about choices. These choices, as applied to organizational initiatives, affect (among others) the degree to which the business (or agency) will be successful in meeting the strategic goals it has set in its enterprise business strategy (or mission statement).
Regardless of the selected technique or artifact, clarity around what decisions are made and who is authorized to make (and to review or validate) them is an essential component in our portfolio management governance mechanism.

**Legitimate exercise of authority**

Corporations and government entities grant authority across organizational functions, entities, and roles in order to carry out the goals, the business activities, and the policies of the organization or agency.

Within the portfolio management domain, authority is granted in order to ensure that proposed initiatives are approved in the best interests of the business and its goals.

Further, portfolio management governance authority is granted to ensure that existing initiatives are subject to both strategic and tactical reviews, which ensures that these initiatives continue to be on track to deliver needed business value and the defined benefits (within the expected size and time ranges), and that they perform and conform to agreed plans and parameters.

There are limits and acceptable behavior that surround the exercise of delegated authority. The set of portfolio management governance principles, defined early in portfolio management practices adoption, provide some guidance around what is acceptable. The overall corporate (or agency) governing policies and principles are another source for the definition of acceptable (and ethical) behavior in the exercise of authority and decision-making.

It is important that in the definition of the portfolio management governance mechanism, provision is made for definition and dissemination of applicable policies, conduct of reviews, and the specific exercise of oversight. Responsibility for the preceding actions must also be identified. This ensures that the exercise of governance and decision-making conforms to all organizational policies and principles, and also to any applicable regulations and laws.

**Identification of enabling and sustaining functions, roles, and responsibilities**

This key component (enabling and sustaining functions, roles, and responsibilities) is linked to the concept of "governance framework or structure."

Within the context of the governance framework, the various organizational entities are modeled, and their relationships to each other, in terms of authority and decision-making, are defined. This is the governance framework or structure. This modeling effort is carried out by members of the governance adoption project team, mentioned above.

Once that effort is completed, it is necessary to flesh out the skeleton of the governance framework with definitions of operational responsibilities and major functions that are performed. This definition effort will ensure that all of the needed work to successfully implement and sustain the use of portfolio management as an organizational process is identified, assigned, and for which controls are built. Likely, the various roles and entities in the governance structure are divided up among the members of the governance adoption team for additional definition.
"Enabling" and "sustaining" are two separate types of activities supported by the functions, roles, and responsibilities. An explanation and examples follow.

One example of an enabling structure is the portfolio management governance structure. As part of the adoption of portfolio management, we understand that governance is required. We know that the discipline of portfolio management requires management, oversight, and control, and a means to exercise these. So as part of the effort to enable the adoption, we must define, validate, and implement a governing structure. When this is done, another step in the adoption of portfolio management as an organizational process can be said to be "enabled."

Once we have completed our adoption effort for portfolio management as an organizational process, we need things that will sustain its continued use. The work of defining and implementing needed metrics that indicate that governance is effective is one example of a sustaining "asset." We define these metrics and agree to their use. We put in place policies and tools to collect them. The leaders for the portfolio management function regularly review the collected and analyzed metrics.

The metrics analysis identifies some operations, or practices, that are less than effective. As a result, the leaders define actions that are taken, decisions are made, and adjustments in the practices and usages of portfolio management are implemented.

Another assessment of the less than effective operations or practices is conducted after the adjustments and changes are in general usage. This time, the metrics indicate improvement. The use and application of portfolio management as a solid, useful, and effective organizational process is, thus, "sustained."

Let's take a look at one example of an enabling asset, as illustrated in Figures 3 and 4, and reuse several of the examples from above. Within the governance structure of the program, there is an individual role identified as: "program manager." This role is filled by an individual named Danielle Lee, as you can see in Figure 3.

Figure 3: An individual role within the governance structure

This role of program manager has been granted certain decision-making authority as a result of the establishment of the governance mechanism for the program (see Figure 4).
Program Manager | Program boundaries | Changes in scope | May alter boundaries among projects | Required to refer program boundary and contents changes to program sponsor |
--- | --- | --- | --- | --- |
Budget/expenses staffing | • Approval of single item | • $0-4,999 | All -- except project managers |

Figure 4: Program manager decision-rights matrix

Using this already-completed work as a baseline, the organizational responsibilities and the major functions for the program manager are defined. This typically takes the form (for an individual role) of a statement of general responsibility, together with a bullet-list of specific functions and responsibilities, an example of which follows:

The program manager is responsible for conformance of the program effort to the business and technology strategies and provides overall leadership and management for the program effort. If several projects are put together into a program, then a program manager is assigned with line responsibilities. In this case, the program manager is (typically) responsible for:

- Scoping and planning the program, including developing and gaining agreement for route maps selected and project plans.
- Acquiring the necessary core and specialist team members and support facilities for the time and input required.
- Ensuring the key deliverables are produced on time, within budget, and in accordance with the agreed quality requirements.
- Ensuring that all those involved in the program are adequately trained and briefed in the approach and techniques to be employed.
- Ensuring that the program director, sponsor, and steering committee are fully informed of progress, potential obstacles to meeting program objectives, and issues that they need to address.
- Planning the timing, format, and agenda of the executive and steering committee reviews with the program director and sponsor.
- Ensuring that quality reviews take place as planned.
- Building commitment and agreement to the strategy and its implementation with those managers and staff affected by the strategy (both business and IT).
- In the case of a program, the program manager:
  - Is accountable to the executive sponsors for on-time, on-budget, quality delivery for all program elements.
  - Leads high-level planning work sessions for program plan and schedule development.
  - Reviews/approves project plans for conformance to program strategy and program plan and schedule.
  - Acts as the communications conduit to the executive sponsors and program steering committee.
• Conducts periodic briefings/status updates.
• Escalates decisions to executive sponsors as necessary.

In this way, working through the organizational entities and individual roles identified as part of the portfolio management governance framework or structure, together with the already-defined decision-making authority, for each, all of the major functions, roles, and responsibilities are named and assigned.

To test the correctness of the identification of major functions and responsibilities, a conservation analysis is performed, which ensures that there are neither gaps (needed functions either not identified or for which there is no responsible role or entity) nor redundancies (a function for which more than one role or entity is made responsible).

The process of getting portfolio management governance defined and adopted

The work of getting portfolio management governance defined, agreed, and established requires some thought as to what to do first (and second, and...), including: What results should be achieved from the work at each stage? and How do we know that each stage is truly completed before moving to the next?

There is insufficient space in a single article to explore this in any detail. However, I have a few thoughts to share.

A "vision"

Portfolio management governance is a new concept within the overall organizational governance effort. It makes sense, then, to ensure that those responsible for organizational governance have reached consensus around the questions of who, what, when, where, why for the value, operation, and sustained direction required for successful exercise of governance over portfolios and their initiatives and projects contents.

An effective way to address this need for building a consensus, and for ensuring good answers to these basic questions, is through a group workshop and delivery of a shared vision for portfolio management governance.

Within a documented vision, it is possible to define and agree to basic principles for portfolio management governance (the basis for policies), to touch upon roles and responsibilities, and to explore industry portfolio management governance models and scenarios for what will and -- just as important -- what will not work as part of the corporate culture. This shared and documented vision provides guidance (and a reference point) for much of the remaining work effort of establishing portfolio management governance.

It is suggested that a workshop of this type be planned and led by an outside senior consultant who works closely with the executive sponsor for the portfolio management governance effort.
Sponsorship and leadership
There is no more compelling need within the effort to establish a new governance mechanism than the requirement for the "right" sponsorship and visible leadership.

It is worth noting that at the time in which the proposed U.S. Constitution was being drafted and ratified (in the late 1780s), arguments that the office of "president" smelled suspiciously like a "king," were brought to nothing when it became clear that there was no other viable candidate to first hold that office than George Washington. He was, indeed, a very visible and unifying force for this new governance effort.

The point is, you must give consideration to the fact that a change in organizational governance, such as the adoption of portfolio management, requires a leader who is part of the organizational leadership group that governs the entire organization. The subject of the executive leader for an effort to establish portfolio management governance is one that belongs among the discussions in a vision development workshop.

While this may seem obvious, many times it is simply not seen or understood, and the sponsor or leader is a member of middle management. This means that establishment of portfolio management becomes a matter of "selling upward," for which gaining traction can be difficult.

Adoption effort requires structure
The work of defining and establishing portfolio management governance does not proceed as an isolated effort. Rather, it is part of a larger work effort, which deals with:

- Identification of organizational needs around initiatives and investment.
- Determination to adopt portfolio management as an organizational process.
- Understanding of the organizational readiness to embrace portfolio management as a discipline.
- Construction of a roadmap for adoption of portfolio management.
- Execution of multiple, parallel workstreams that complete various adoption initiatives.
- Oversight and continuing control and adjustment to refine the work effort to achieve the defined success components.

It is important to view this adoption effort as a major initiative of the organization and to apply the same management, process, and oversight as would be required of any significant initiative toward achieving the goals of the business strategy.

Structuring the adoption effort as a "program," and applying program management discipline and practices, will add a layer of oversight, control, and enablement support across the multiple workstreams and initiatives. The use of this program structure for the adoption effort also acts as a risk-reduction mechanism by ensuring solid integration among the various initiatives and clear understanding of cross-initiative dependencies.

Summary
In summarizing the points and ideas in this article, I want to start by providing the IBM Rational definition of Portfolio Management for Initiatives as a discipline:
Portfolio management is concerned with effective, timely, and continuing investment decisions about initiatives; which enable goals and goals components of the enterprise business strategy.

This definition contributes elements to a completion checklist to see if our effort to establish portfolio management governance has been successful. That contribution is that we are concerned that our efforts be effective, timely, and continuing.

The portfolio management governance effort must first deliver the mechanisms and components to define, to adopt, to use, and to assess that these qualities of effectiveness, timeliness, and continuity are achieved. Additionally, the governance effort must then ensure that these mechanisms and components are applied, and (when needed) adjusted and corrected.

Effective decision-making implies that the right decisions are made rightly. Our governance mechanism identifies types of decisions and who may make them. Moreover, it will provide the processes to reach such decisions together with the feedback mechanisms to ensure that the processes are correctly and completely applied.

Decisions are timely when they can be successfully applied to an existing situation -- that is, before events carry an organization on beyond either acceptance or correction of that situation. The achievement of decisions in a timely fashion depends in part upon clear, well-established lines of authority and a clear statement of who decides. Often in organizations, opportunities are missed, or a correction is not applied, because a lack of decision-making clarity requires time-consuming meetings, discussions, and escalations. In many situations, that time is simply not available.

The adoption of a new organizational process can be cause for celebration, information-sharing, and efforts at training and mentoring -- all of which contribute to the initial use of that process. How often, though, when we examine that process one or two years later, do we find it still in robust use? Portfolio management governance provides the elements of continuity, adjustment, and evolving relevance, which is necessary if an organizational process is to continue to be used.

The return on the effort to establish portfolio management governance is significant and well worth the effort to incorporate as part of an overall adoption of portfolio management in your organizational process.

Learn more about Rational Portfolio Management Solutions.

Notes

