TenStep, Inc.
2363 St. David's Square
Kennesaw, GA 30152

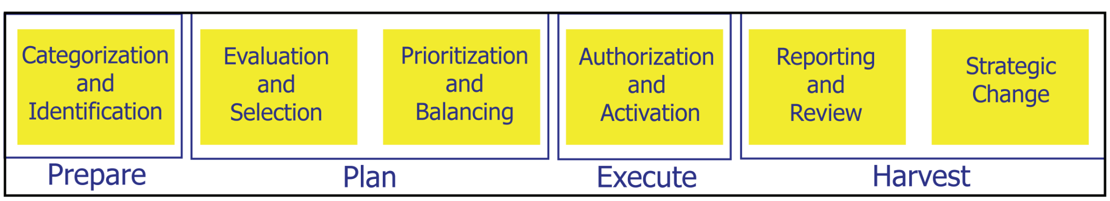
PortfolioStep Portfolio Management Framework™ Overview

Portfolio management is a business process that requires a set of detailed processes to be conducted in an interrelated continuous sequence. It facilitates decision making, through evaluation, selection, prioritizing, balancing, execution of the work, harvesting of benefits and feedback of results for process improvement.

No organization or department has the resources to meet all of its business needs. This is true in the best of times. It certainly is even truer when times are tough. Even if your organization is a rare one that has all the money it needs, you definitely do not have the people capacity to complete everything you would like. The typical response to managing scarce resources against an unlimited demand is to come up with some type of prioritization process to ensure that you approve and fund the work that will provide the most value. The next question, of course, is how you know that you are applying resources towards the highest priority and highest value work.

Portfolio management is a process to ensure that your organization or department spends its scarce resources on the work that is of the most value. If you practice portfolio management throughout your organization, this process helps to ensure that only the most valuable work is approved and managed across the entire enterprise. If you practice portfolio management at a departmental level, it will provide the same function at this lower level.

Department leaders that do not understand how their budgets are spent, and who cannot validate that the work being funded is the most important, will find themselves under greater scrutiny and second-guessing in the future. Portfolio management can help your department answer some of the most basic, yet difficult, questions regarding work performed and value provided.



The PortfolioStep Portfolio Management Process has a life cycle that consists of four major sequential phases or activities. These are: Prepare; Plan: Execute; and Harvest. These phases in turn encompass the ten steps described in this PortfolioStep process. The harvesting activity refers to the reaping of the benefits, assessing their value and feeding the findings back into the preparation phase of the process, in order to establish continuous improvement, and thus completing the cycle.

Hence, PortfolioStep™ is a repeatable process of preparing for, planning, executing and harvesting the value of work as a business portfolio. However, you cannot start the planning and executing portions of the process without understanding two fundamental areas.

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You must grasp the nature and extent of the work that you want to manage as a portfolio. Once this is defined, you will have established the scope of your portfolio

You must reach agreement on the things that are important to your organization so that you have the context to make work prioritization and balancing decisions

PortfolioStep takes all of this into account and does not assume that you have any of the pre-requisite information ahead of time. The main sections of the portfolio management process are as follows.

Categorization

The Project Management Institute defines categorization as: "The process of grouping potential components into categories to facilitate further decision-making", and it defines a category as: "A predetermined key description used to group potential and authorized components to facilitate further decision-making. Categories usually link their components with a common set of strategic goals."

The categorization step is completed first. This is where you define the terms, scope and definition of your portfolios, and gain agreement on your basic portfolio model. For instance, you need to define information like the following:

- **The organizations covered.** For instance, will you include the entire company or just certain organizations?
- **The type of work included**. For instance, does your portfolio include projects, support, operations, etc.?
- **The categorization scheme.** This helps you balance your portfolio in areas that are important to you so that you can optimize the overall allocation of resources. For instance, categories could include work that supports the business, grows the business and leads the business.
- **The balance points.** For each categorization you define, you would also set some guidelines as to how you think the work should be balanced.
- **The financial models.** It is impossible to compare apples to apples if each project has different financial justification based on different models. You need to understand the financial models that your organization wants to utilize and make sure all projects are justified using those models.

Identification

Many implementations of portfolio management start directly with trying to identify and prioritize the work of the portfolio, most likely because that is obviously where you will find the greatest value. However, if you start there directly, you will soon find your group is in disagreement over what work provides the most value.

The value that work brings to your organization is typically based on the financial cost/benefit implications and how well it aligns with your organization's strategy, goals and objectives. The financial cost/benefit can be calculated and compared once you have the common financial model(s) in place. Goals and strategies are needed to align your work to what the organization has identified as the most important.

You cannot make decisions on prioritizing work without knowing what the company or organization feels is important. The Identification step results in establishing the context within which work priorities and approvals are made. Identification starts with first evaluating your environment through a Current State Assessment and then contrasting the current state with a Future State Vision that describes where you want your organization to be in the future. The process results in the validation (or creation) of your mission, vision, strategy, goals and objectives. In particular, your strategy and goals will provide the high-level direction that will help align and prioritize all the work for the coming business cycle.

Evaluation

During Identification you cast as wide a net as possible to account for all of the work that could possibly be in the portfolio. You already know that some, perhaps much, of the proposed work will not be authorized. Evaluation is where you start the process of scaling back the work so that you can bring forward only those components that are of the most importance and value to the department, especially for consideration for the coming year.

At this point, each request only needs to complete a simple Value Proposition document that describes the work and the value that it will provide to the organization. The Value Proposition will also show alignment with the overall organization strategy and goals. If you are including all work, the Value Propositions will include projects, support, discretionary and leadership work.

Selection

The Selection process is usually completed at the beginning of the annual Business Planning Process and is the time to bring all work forward for review and scrutiny. Work that does not appear in this Selection process has no chance of making it into the final list of authorized work. The assumption here is that all spending for your department is being managed as a part of the portfolio.

At this point, you need to make sure that the work requests you put forward are fairly precise in terms of costs and benefits. There are two ways to firm up the details. One is to be more diligent on the Value Propositions. The second is to develop more detailed Business Cases. Lastly, the Value Propositions and Business Cases are reviewed to confirm their content. This is the last opportunity for documenting your proposed work prior to reviews and final decisions. The review process will validate the understanding and need of each Business Case.

Prioritization

One of the key assumptions of PortfolioStep is that there is much more work requested than the organization can execute in one year. (If, in fact, you could do everything requested, you might not need a process like PortfolioStep.) After all the work has been selected, a prioritization process begins. First, work is prioritized **within** each business

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unit based on categorization and ranking within the various categories. The Business Cases for all the remaining projects are then prioritized and ranked **between** all business units to come up with the final list of prioritized work. This process is easily described, but hard to accomplish because of the need for collaboration and consensus among senior managers.

Balancing

At this point, you have your prioritized list of work for the portfolio, as well as guidance on your available funding. If the available funding will cover all of the proposed work, you will be in the enviable position of moving forward without further portfolio adjustment. However, this is rarely the case.

Portfolio balancing is the process of organizing the prioritized components into a component mix that, when implemented, is best aligned with, and best supports the organization's strategic plan. The first step is to start cutting work based on the previous Prioritization process in order to get within budget. PortfolioStep makes a major assumption that the required balance points are usually set by the Executive for allocating resources, financial or otherwise, between the competing demands within a portfolio. Apply your Balance Points to make sure that the entire portfolio is balanced to your specifications. These are the demands raised by the various business units such as Operations, Projects, Other Work, and so on.

Finally, you will optimize the portfolio. This is the process of making some final cuts and/or adjustments such that the combination of projects and other work gives rise to the maximum benefits to the organization given the resources and funds available.

Authorization

After the Balancing step, the most valuable and aligned work is authorized for the coming year. This process sets aside approved budget and resources to complete the work. This is not a guarantee that the work will be funded. Changes in business conditions or newly surfaced work in the coming could bump some authorized work off the approved list. However, all things being equal, authorized work will, in fact, be scheduled and executed in the coming year.

The general flow of the Authorization process is to submit your total funding request for the portfolio. Unless you are defining your portfolio to include the entire company, your request is just one of many requests that are coming in from other organizations and perhaps other portfolios. Once all of the requests for funding have been received, the company executives make some fundamental decisions on how much they can afford to spend, and they provide that guidance back down to your portfolio. Your Steering Committee then needs to get together again. The purpose is twofold. First, the work requests are cut back based on priority so that the remaining work fits into the available funding. Second, the portfolio of work is balanced to match as closely as possible to your previously defined Balance Points. The last step is to receive authorization for the work within your Portfolio.

Activation

Activation is the process of actually scheduling and executing the work throughout the year. It is the ongoing management of the Portfolio. The Activation step contains a mini-Business Plan Process to account for new work which surfaces during the year. If new work is added to the portfolio it could mean that other previously authorized work will need to be removed. This ongoing process of re-planning and rebalancing the work based on changing business needs is all a part of portfolio management.

Portfolio management is a mindset. All resource allocation decisions are made in the context of how they will impact the portfolio objectives. The result should be that the performance of the entire portfolio is optimized for the greatest benefit to the organization.

Reporting and Review

Portfolio reporting and review deals largely with measuring results, integrating changes, and reviewing / re-forecasting the work.

It provides a status on the strategic goal achievement, asset contribution, current corporate risk profile, and corporate resource capability and allocation. This information may well lead to some modification of the authorized and activated work, and the need for further review and possible changes to the portfolio work.

Strategic Change

Over the longer term, e.g. annually, when products and other benefit enablers have been launched and the harvesting of benefits commenced, the results of the PortfolioStep process can be collected. These results should be fed back from Operations to the Executive for information and to the portfolio management group for thorough examination and analysis. These results should enable you to assess the effectiveness of the PortfolioStep process and propose changes to improve the whole cycle.

Some of these changes may even imply or require changes in the Executive vision and strategy. Other changes may be focused on how the process itself is conducted but nevertheless involve any of the three main parts of the organization.

PortfolioStep Flexibility

We must emphasize that all the steps described above do not necessarily have to be strictly sequential. Management is often an iterative exercise and, as with our other TenStep products, you must exercise judgment how far you go with each step, and in what order, to make the whole work together.