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# Project Portfolio Prioritization

## The Need for a Hands-on Mechanism

Pavlina Antonova / Raoul Ruthner

*The role of projects as major drivers for strategy implementation has been appreciated during the last years; they can be seen as the crucial activity-oriented link between strategy and operational budgets. However, beside this development and a professionalization in single project management, the application of systematic and binding prioritization rules can rarely be found in practice. Especially under rapidly changing conditions, the selection of a certain set of projects is becoming a challenging task. In 2008 Telekom Austria decided to develop a new approach towards project portfolio prioritization.*

### 1. Guiding Principles in Project Portfolio Prioritization

The following **targets** were defined upfront for the development process:

- The approach has to provide systematic decision support for steering bodies, but it will not substitute management decisions by an algorithm.
- The defined portfolio prioritization mechanism has to be applied in the entire group for all projects.
- Portfolio prioritization has to be an on-going task within the entire portfolio management process.
- The portfolio prioritization mechanism must be hands-on, without too much complexity for users and decision-makers.

### 2. Top Activity Planning

Portfolio prioritization is imperative in groupwide overall project portfolio planning (so-called top activity planning). **Top activity planning** is the last step in the strategic planning cycle which defines concrete projects for strategy implementation. Portfolio prioritization is a mandatory element that supports planning and steering of the project portfolio and creates a viable **link between planned and on-going projects**. As a central portfolio management process, it serves mainly to answer the following question: What set of projects supports strategic goals in the most effective and efficient way?

### 3. Prioritization Matrix

The basis for project portfolio prioritization is a **prioritization matrix** (see fig. 1) that combines two axes: **strategic impact** and **complexity**. Strategic impact represents the potential benefit, while complexity is used to appraise the inherent risk of the project. Within the portfolio, four quadrants are distinguished in order to formulate concrete measures for further steps within the project portfolio planning process:

- **Quick wins (strategic impact – high, complexity – low).** The related benefit is quite easy to achieve, and there are no substantial foreseeable risks that could foil the project's success.
- **Line activity (strategic impact – low, complexity – low).** As there is no need for a separate organization, the projects tends to be realized within line organization.
- **Drop (strategic impact – low, complexity – high).** Such projects yield small benefits in combination with a quite high degree of complexity (and thereby risk); consequently, they are usually dropped from the portfolio.

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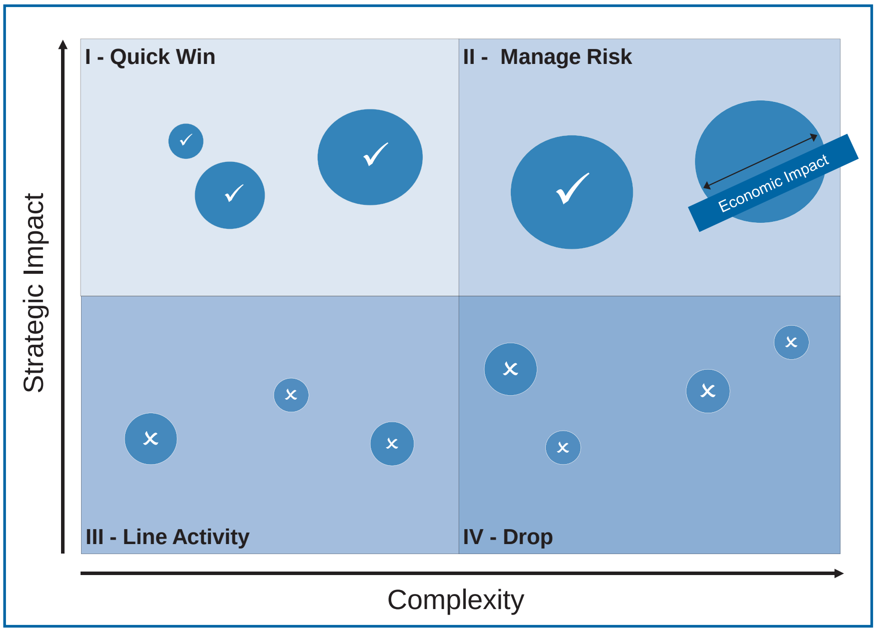



**Fig. 1:** Prioritization matrix

- **Manage risk (strategic impact – high, complexity – high).** The combination of high benefits and high complexity requires proactive work on the risk side (e.g. splitting the investment risk by approving smaller subprojects).

## 4. Multi-Factor Model

The position of any given project on each axis is calculated with a **multi-factor model** which takes into account different facets:

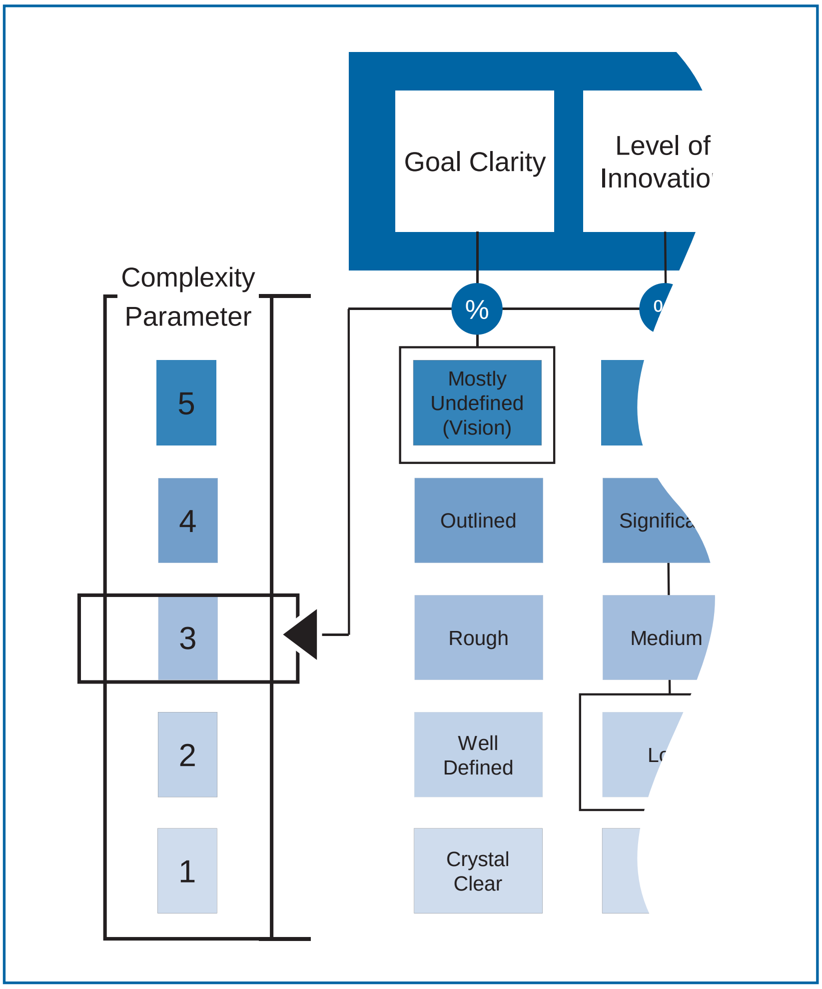
### *Strategic Impact Factors*

- **Revenue upside potential (EBITDA impact):** What is the revenue potential of the project, and what will be the impact on EBITDA?
- **OPEX & CAPEX reduction**: How high is the potential to reduce OPEX & CAPEX?
- **Strategic support:** In how far can the project contribute to achieving important goals within the strategy map?

### *Complexity Factors*

- **Goal clarity:** Does the project have a clearly defined goal?
- **Level of innovation:** Are the implemented technology and the product/service itself completely new?
- **Involved operating companies/organizational units:** How many different players participate in the project?

**Fig. 2:** Evaluation of factors




- **Technical dependencies:** How many dependencies and interrelations are there, and how difficult will it be to align the project with other projects?

Each factor is evaluated on a five-point scale and then aggregated by weighting the results according to overall strategic impact and complexity, respectively (see fig. 2). In order to ensure comparability between different countries, the process of weighting according to the level of complexity is standardized within the whole group. Strategic impact factors, however, may be weighted differently in each country in order to allow for the distinction, for instance, between greenfield operations (which, by definition, are targeted on growth) and on-going, established projects (where growth and profitability must equally be considered).

## 5. Portfolio List: Ranking of Potential Projects

At the end of the day, portfolio prioritization must come up with a **ranking of potential projects** that serves as the basis for decision-making:

- Which set of projects should be realized within the next year?
- What is the priority of the project when it comes to competition for scarce resources (i.e. money and staff)?

The result is a **portfolio list** (see fig. 3) with legal and regulative obligatory projects at the beginning (by definition, they are excluded from the ranking). To derive a ranking for the remaining projects, strategic impact and complexity are integrated into a formula

(**Rank** = [**Strategic Impact**$^2$] **x INV** [**Complexity**]).

All other projects receive a definite rank for execution which is reflected in all project-related decisions to be made.

As in every portfolio approach, the first examination provides but a tendency (like a general strategy) what to do with the project. A **detailed reflection** by the relevant steering bodies is crucial for the success of the concept. Thus, project portfolio prioritization serves as an instrument to structure and prepare decisions; however, it is *not* intended to substitute management know-how and decisions by means of a simple algorithm.

On the other side, a clear selection and prioritization mechanism is a major success factor in ensuring objective decision-making in the project portfolio planning process: it helps **increasing both quality and traceability of management decisions.**

## 6. Success Factors in Implementing a Prioritization Mechanism

Several years of experience with the prioritization approach show that the following factors are crucial for implementation and practical use of the concept:

- **Intensive coordination and communication with all relevant stakeholders** (manage-

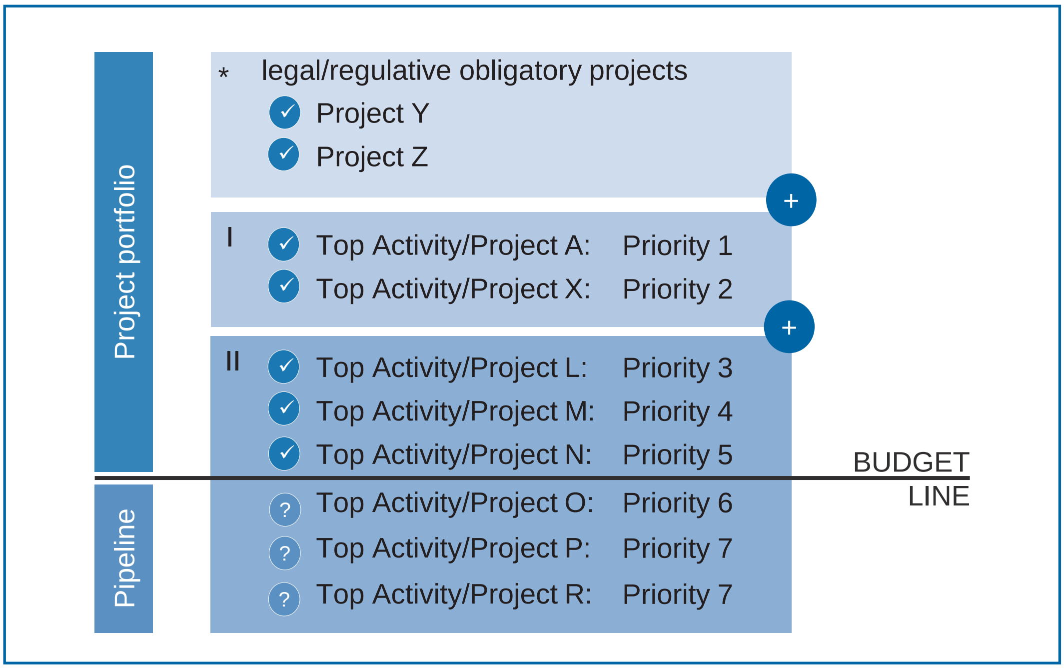



**Fig. 3:** Exemplary project portfolio ranking

ment, project management community, controlling, etc.) within the company in order to create insights into the mechanism and achieve broad commitment.

- **Integration with other control mechanisms** like portfolio budget planning and forecasting.
- **Adequate tool support** to make life as easy as possible for users and allow for the simulation of different scenarios.
- **Integration of on-going projects into portfolio prioritization** so as to make clear that no project decision is carved in stone if there are fundamental changes in the relevant environment.
- **Keeping the prioritization mechanism stable** to make decisions traceable and increase acceptance within the organization.

Especially during the time of organizational changes – e.g. the merger of mobile and fixed operations in Austria – the group's prioritization mechanism proved immensely useful. Due to its comprehensive and universal prioritization logic it turned out to be just the right tool to provide strategic planning support to the various operational units in the group's expansion process.

Continuing its success, the project portfolio prioritization mechanism is now being implemented in the group's new standard portfolio management tool. As the most stable pillar of the project planning process, the prioritization mechanism furthers the harmonization of strategic planning in each operating company of *Telekom Austria*. Thereby, it also improves overall project portfolio management – a key for optimizing decision-making in a time when companies face increased organizational and market challenges.

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