Successful Portfolio Management

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Synopsis

Successful portfolio, program and project management is the critical differentiator for an organization to achieve its strategic objectives. This is facilitated by robust portfolio definition, prioritization and implementation of the portfolio through its component programs/projects and operations.

In this white paper, we give a brief overview of the portfolio definition and deployment process, detailing out the concepts of portfolio prioritization and balancing, to create an implementable portfolio. The actual deployment occurs through program and project management processes and is covered in other white papers.

Portfolio Definition and Categorization

Portfolio management revolves around understanding which change initiatives (components – including programs and projects) should be pursued and details out a roadmap for their implementation. The portfolio delivery life cycle relates to actual implementation through its components, assessing the success of the portfolio and retuning it as required, based on feedbacks.

A portfolio can exist at multiple levels and individual Strategic Business Units (SBUs) can evolve their sub-portfolios, within the ambit of the organizational 'master' portfolio.

Many corporations differentiate between an 'active portfolio' – including the change initiatives which are currently under implementation and which could cover a timeframe of, say, from one to three years, and a 'target portfolio' – which includes planned change initiatives covering a longer timeframe such as three to five years. The delineation of these time frames also depends on the 'velocity' or the 'clock-speed' of the industry within which the organization operates. For instance, for industries such as pharmaceuticals, the implementation life cycles for projects are typically of longer duration to bring a new drug or a formulation to the market. Whereas, in an industry such as mobile computing applications development, rapid changes would need to be addressed. The business change life cycle reviews (which provide a review of ongoing viability of change initiatives through management dashboards) also afford a mechanism to retune the portfolios progressively.

There are several ways an initial portfolio set is determined. It is highly unlikely that portfolios are introduced in a 'green-field organization', especially in an established organization. It is quite likely that such organizations might already be running multiple initiatives, which might not be aligned with its strategic objectives. This is especially true of the corporations, where 'pet or rogue' projects are taken up based on inadequate business case assessments, or duplicated initiatives span across different SBUs or geographies.

An inventory of existing change initiatives and an assessment of their alignment to strategic objectives reveal these duplications and also the extent of support. We could probably consider this as a 'bottom-up' type of approach to portfolio definition.

Normally a Portfolio Office (or similar office) works closely with the Strategy team of the organization to produce a list and performance review report of existing change initiatives. This review can cover the status of implementation of existing components, benefits expected, risks, resource utilization, and alignment to the strategic objectives. This inventory itself yields valuable insight to the top management on where the current investments are going, which components are performing effectively, and which ones are 'draining out' valuable resources. An immediate outcome in such cases could lead to resource reallocation to more valuable components and rationalizing the existing set of initiatives.

It needs to be noted that portfolios represent the closest linkage to strategy, and hence, whenever there is a change in the strategy, it is the portfolio which first gets impacted. This approach pre-supposes that the organization has already an existing organizational strategy, mission, and goals to achieve its vision or the desired end state.

A more robust approach followed by some corporations relates to a blend of 'top-down and bottom-up' approaches. In the top-down approach, the delineation of change initiatives to be taken up is determined from a long-term strategic objective. Broad steps as per this approach are as under:

a) Determining the mid-term (covering, for example one to three years) and long-term (for example more than three years) goals of the organization. Typically these could be stated in value terms for easier quantification – i.e. obtain an increase of 20% market share in three years. Multiple goals can be considered by the organization. This comes under the realm of strategy formulation.

b) Once the goals are determined and quantified, the organization assesses the 'as-is' state and performs a 'gap analysis' with the 'to-be' state and identifies change initiatives, which are needed to bridge the 'gap'. For instance, an incremental 20% market share to be obtained can result from the outcomes of multiple change initiatives, and these could be a mix of projects and programs, constituting a portfolio.

c) Environmental analysis like SWOT (strengths, weaknesses, opportunities, and threats) analysis, PESTLE (political, economic, social, technological, legal, and environmental) factors analysis, Michael Porter's five forces analysis (including, the threat of substitute products or services, the threat of established rivals, and the threat of new entrants, the bargaining power of suppliers. and the bargaining power of customers.), Blue Ocean Strategy (by creating an uncontested market space and addressing its requirements), etc. are major tools used by the Strategy team to determine the set of change initiatives to be taken up/ augmented to achieve the desired goals and when they need to be implemented.

d) Typically, the outcomes are identified first, and then the contributing projects are ascertained, which could lead to mix of initiatives. Existing initiatives are considered based on their alignment and contribution to strategic objectives. Depending on their strategic fit, some of these existing initiatives are retained in the portfolio and others dropped or discontinued/ merged. The Portfolio Manager, along with the Portfolio Office, plays a critical role in identifying the existing component, which could get retained or removed from the portfolio, to be approved by the top management.

Different companies adopt different strategies to capture market share. These generic strategies include being the lowest-cost provider, feature differentiation, and obtaining customer buy in. Portfolio definition and balancing can vary depending on the primary goal of the company. For instance, in the companies focusing on cost leadership, the portfolio will focus on initiatives to reduce waste, improve supply chain efficiencies, and reduce inventories, etc. For companies focusing on differentiation, the focus will be on innovation, research and development, and more effective marketing. The third type of companies will focus on knowing their customers well and providing bundled solutions. Any single strategy might not be adequate, and a combination of multiple strategies would be required to gain market share, depending on the context, which could vary with time.

Once the first set of components is identified, the next logical step is to categorize them. The categorization criteria could vary with the industry and the type of organization (such as non-profit companies, government organizations, for-profit organizations, etc). The make-up of the portfolio is determined through categorization, which enables a sharper focus for prioritization and balancing. The categorization also enables more efficient delivery, as the skill sets could be different for varying categories. Companies also use techniques such as the Boston Consulting Group (BCG) matrix during this categorization.

A typical classification could be initiatives which support operations, initiatives which are strategic, and those which have a high potential but unproven potential. The investment and appraisal criteria for each of these grids could be different. The Portfolio Management Plan can include a high-level approach to define and prioritize the portfolio and implement the components, including the portfolio prioritization model.

Once the initial categorization is done, the executives can determine the extent of support of existing and proposed change initiatives to the strategic objectives. This is a useful step as it reveals gaps and cases where multiple change initiatives duplicate benefits. A key characteristic of the portfolio is that components should be quantifiable to enable measurement and prioritization. Resource sharing is another important characteristic of portfolio components; hence, the need to prioritize amongst competing components becomes necessary. This prioritization can be carried out by the Portfolio Manager, under the guidance of the Portfolio Director from Strategy team, who could provide more insight on the organization's strategic priorities etc., and the Portfolio Management Governance Board (or similarly named roles). The Portfolio Office can provide expert judgment during the inventory process, prioritization, component selection, and monitoring of portfolio performance. The Portfolio Office could also maintain the portfolio, program, and project frameworks; maintain a master data base of resource utilization; and assist the program and project managers especially on use of best practices and in risk/issue management. In many corporations, Portfolio Offices are also vested with the responsibilities of knowledge management, maintenance of best practices/metrics, tool management, and undertaking competency enhancement initiatives. They could also maintain the portfolio process assets, based on historical information of past portfolio implementation.

Since the resource sharing happens across components and also operations, the organization could undertake an overall capacity planning and deployment exercise in a transformational context. Apart from line functions, the shared functions, which are intensely involved during portfolio management, could include the departments of finance, human resources, information technology, and procurement. The level of acceptance and application of the portfolio is directly related to the maturity of the organization.

Portfolio Prioritization and Balancing

Portfolio prioritization occurs after the initial definition of the portfolio and 'bucketing' or categorization of the change initiatives under multiple criteria. Different companies use different criteria for this classification, such as research and development (R&D) - related change initiatives, customer-facing change initiatives, maintenance-related change initiatives, etc. Under each of these, it may be worthwhile to further classify them if a change initiative is mandated by top management such as the need to address a regulatory requirement, etc. Factors to be addressed here include resource availability, component interdependencies, the change appetite of the organization, risk-related factors, funding availabilities, etc.

Following steps are taken into account during portfolio prioritization and balancing.

a) Define the classification criteria: In most cases, the classification criteria would have already been finalized along with portfolio definition. Different entities (such as government and non-government organizations) use different criteria for classification. These could include for example:

- Strategic
- Potential high revenue earners
- Operational
- Maintenance support, etc.

In a non-profit organization setting, the classification criteria used will be different One of the government health institutions for instance, classified the change initiatives under different categories – such as those initiatives which addressed endemic diseases, those which enhanced the quality of service delivery for out-patients, and the third to reduce the cost of medications once the patients left the hospital but who were still under post-hospitalization observation and treatment.

The clearer the classification criteria, easier it is for the organization to classify the change initiatives. Usually the initial classification is done by the Portfolio Office or similar role for subsequent refinement.

Some companies use the balanced scorecard (BSC) approach while classification (and even during balancing) of the change initiatives. The BSC has been used by many innovating CEOs not only to communicate and clarify strategy, but also to manage strategy .The scorecard can not only provides an enterprise view of overall performance by integrating financial measures with other key performance indicators around customer perspectives, internal business processes, and organizational growth, learning, and innovation. It is not a static list, but a tool for implementing and aligning complex programs of change.

A good balanced scorecard 'tells the story of the strategy' and the initiatives selected depict the chain of cause and effect that link to the achievement of the strategy, in a portfolio setting. This is described more in detail subsequently.

The portfolio prioritization is done in a two step basis.

i) Prioritization of the components within a 'bucket'- this is usually done using risk-return assessment. Each of the change initiatives within a group is assessed based on risk and the likely return on investment. Depending on if the Company is risk seeking or risk averse, the prioritization of change initiatives could be different. Usually these decisions are taken within the particular department – with the involvement of the departmental heads etc. Also, in some cases, prioritization occurs by comparing one initiative with other initiatives in the 'bucket' and assigning a numerical score of 1 if the current initiative is more 'attractive', as compared to other initiative and 0 if otherwise. These scores are summed up for each initiative, and the initiatives having higher scores are considered for next round of prioritization.

ii) Once the change initiatives have been prioritized within each of the 'buckets' – the next step is to prioritize across the categories. This indeed is a daunting step – as herein the turf wars and egos of the departmental heads begin to surface. Each of the departmental heads usually tries to ensure that as many change initiatives from their department as possible get included under the final portfolio for funding. The decisions herein enter the arena of constrained optimization and collective decision making.

Different companies use different styles during this prioritization. Some companies have devolved budgets to different Lines of Business (LOBs) or SBUs empower the respective SBU/ LOB heads to define sub-portfolios. The master portfolio then becomes a collection of sub-portfolios with decentralized decision making and monitoring. A strong central governance role is needed in such cases to ensure uniform reporting of the portfolio progress across the SBUs/ LOBs.

Few other companies have evolved criteria that only those components which exceed a threshold monetary value are considered for prioritization across SBUs. Here in there is a risk that the change initiatives could be undervalued to escape scrutiny. Usually the Portfolio Management Governance Board (or similar group) would approve the decisions regarding the inclusion of change initiatives across the master portfolio. Ground rules are usually laid down to debate and discuss the pros and cons of each of the decisions. Needless to say, support from the Portfolio Office is essential during this decision making process. Many companies use group thinking and decision making processes – such as 'Six thinking hats' technique to discuss multifaceted aspects of decisions.

As noted earlier, Balanced scorecard techniques have been used extensively during portfolio prioritization. We give few illustrations of change initiatives which could be considered for these four perspectives.

a) Financial – those change initiatives which maximize revenue from the ROI perspective. Though these initiatives contribute to the short term revenue growths (and possibly the shareholder returns) – it is quite unlikely that they contribute to sustained revenues

b) Customer facing: Like those initiatives which focus on Customer satisfaction, like measurement of customer satisfaction, customer profiling etc,

c) Process related initiatives- these initiatives usually relate to retuning of internal processes – including supply chain management, financials management, manufacturing etc. Business Process Re-engineering, Lean manufacturing types of initiatives are considered here. A classic example is of implementation of Six sigma by multiple companies like GE couple of years ago, resulting in huge savings due to reduction in defects subsequently.

d) Human competency enhancement – relating to skillset upgradation, trainings, putting in a better reward and recognition systems, appraisal systems, IT support will come into focus here. (It needs to be added that such initiatives result in revenues with a 'lag' effect – but provide the momentum for sustained revenue growth subsequently).

Decisions which have been taken unilaterally by the senior management do not carry much conviction when it comes to implementation. An improved awareness of risk management and resource utilization also happens due to better portfolio management. Also – the very process of 'killing' unviable projects sends out a powerful message to key stakeholders and 'pet and rogue' projects would not be tolerated. Portfolio prioritization also thus enables better business case creation to portray the business value.

Portfolio balancing is done consulting with other organizational units like Corporate Strategy team, heads of Business Units, Portfolio Office etc. This is more so – as at any time the organization needs to balance between initiative change management and business as usual and the resource deployment needs to be optimal and adjusted on an ongoing basis.

The Portfolio Management Plan is produced once the portfolio has been prioritized and balanced initially. The final balancing of the portfolio needs to address the following factors:

- Availability of funds to initiate further changes
- Risk appetite of the organization
- Need to implement mandatory/ regulatory changes within defined timelines
- Resource availability (which can be augmented by deploying external consultants if need be)
- Top Management commitment etc.

Some companies produce an accompanying Portfolio Implementation Plan, stating which initiative will be implemented when, resource requirements for the same etc. This plan can get changed during business change lifecycle transitions, in case of structural changes (like mergers/ acquisitions) and as directed by Top management.
The Portfolio Manager can refine the Portfolio Implementation Plan with the approval of the Portfolio Director and the Portfolio Management Governance Board. The Portfolio Office needs to be informed and consulted during the change process.

The portfolio value can be measured by multiple techniques – like Return On Investment (ROI), Net Present Value (NPV), Payback Period (PP), Internal Rate of Return (IRR) etc. The actual implementation of the portfolio through its components will be done by the Program and Project Managers. However, the Portfolio Manager needs to establish the governance criteria for the components, address starting and stopping of components, their resource deployment, and monitoring of their progress. Especially phase-gate reviews and mid-course corrections of the components are critical for successful management of the portfolios.

The assessment of the portfolio in an ongoing basis can include the following:

- Alignment of the current portfolio to the organizational strategic objectives
- Assessment of the current resource loadings and commitments
- Assessment of the current status of the portfolio – how long the components have been underway and which issues and risks are being faced
- Understanding the dependencies across the components and an ongoing assessment of the risks (especially for resource deployment and financial commitments).

Maturity of the organization is critical to assess how the portfolio gets implemented Most of the portfolios are planned well – but the issues crop up during implementation.

Wherever sub-portfolio optimization is done, it needs to be consistent with the organizational framework. The prioritization and balancing can be done at the overall company level or it can be divested at the SBU level (which is applicable for the conglomerates or group companies). The former approach is fairly intrusive, but useful when the organization is embarking on enterprise-wide capacity planning. Most of the larger companies look at diversifying portfolio management to the respective SBUs and monitor the performance 'at an arms' length', which devolves a greater degree of autonomy to the process, facilitating their buy-in as well.

The weightages to be given for various parameters etc during portfolio prioritization are usually decided based on expert judgment and group conferencing techniques. Whereas prioritization and balancing is important, the feedback from actual execution is more valuable. The prioritization criteria need to take care of ongoing portfolio performance as well as providing guidance for appraisal of future change initiatives. A well defined portfolio would provide a good transparency on why a change initiative was selected and how does it contribute to achievement of the strategic objectives of the organization.

Another important aspect which needs to be considered during portfolio prioritization is the authenticity of data. We have noted in many companies – the same data element is interpreted differently by multiple agencies. The very process of prioritization enables better communication and discussion across senior stakeholders resulting in uniform interpretation of data elements.

Many of the companies develop a driver based model to measure the value of the change initiative. For instance, it has been noted that higher degree of employee satisfaction leads to higher sales – albeit with a lag effect. It would be feasible to produce a value chain which links these parameters

It is imperative that these value chains are developed with inputs from participation of key stakeholders in a workshop. At the program level, benefit logic maps (or simply benefit maps) – link the benefits to the enabling projects, outcomes and external change initiatives.

It is easier to prioritize once the portfolio segments have been developed.
Weighting and ranking systems, pairwise comparison are easier to understand. However, any portfolio model should overcome the silo based mindset. In order to do this, again management commitment is imperative.

While selecting and balancing the portfolio, a major tool which is used concerns efficient frontier algorithm by Harry Markowitz. In a risk return scenario, this frontier includes the set of initiatives which maximizes the return for a given amount of risk or minimizes risk for a target amount of return. Based on the risk appetite of the organization, different companies position themselves along different points of the efficiency frontier curve.

Once the portfolio is balanced, the Portfolio Implementation Plan informs the timelines when multiple initiatives are to be implemented, when the outcomes and the benefits are expected. This plan itself can become a baseline – against which the progress can be measured and corrective/ preventive actions taken as a part of portfolio delivery.

The deployment of the portfolio also needs to consider the risk management and the change readiness of the organization. Change Management (especially the organizational change management, along with team change and individual change) are useful concepts here.