THE FIRST COMPREHENSIVE GUIDE TO APPLYING THE CUTTING-EDGE DISCIPLINE OF PORTFOLIO MANAGEMENT TO HARNESS THE POWER OF CHANGE

Over a million individuals in more than 170 countries use some aspect of portfolio management to make business decisions, but until now, no one has provided these practitioners with a comprehensive overview of this revolutionary management tool. By using *Taming Change with Portfolio Management*, readers will learn how to increase operational efficiency, maximize capacity utilization, and generate outstanding profits.

While hundreds of books have been written about various portions of this discipline, this is the first book to synthesize all the information into one definitive treatment of portfolio management.

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Taming Change with Portfolio Management: Unify Your Organization, Sharpen Your Strategy, and Create Measurable Value

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TAMING CHANGE WITH PORTFOLIO MANAGEMENT

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PAT DURBIN AND TERRY DOERSCHER

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ADAPTING TO CHANGE

It is not the strongest of species that survives, nor the most intelligent.
It is the one that is the most adaptable to change.
—CHARLES DARWIN, ON THE ORIGIN OF SPECIES

THIS BOOK IS ABOUT MANAGING CHANGE. More specifically, it is about how to apply the discipline of portfolio management to take command of change events as they flow through your organization. Whether you work in a mid-sized company, government agency, global corporation, or nonprofit institution, portfolio management can improve how you and your organization handles change.

You are probably already familiar with the concept of managing a portfolio of projects that share common resources or funding. You might also be familiar with managing change in the context of change orders within a project, enhancements to a product, or change requests to a computer system. While all of these concepts of portfolios and change are valid, we are approaching these subjects from a broader perspective—applying portfolio management to changes that impact you on an organizational level to effectively manage these change events, deliver exceptional growth, and create measurable value.

The discipline of portfolio management can be applied to manage strategies, products, markets, and more. The portfolio management tools and techniques used to plan and manage a collection of projects are equally applicable to investment analysis and operational planning. Portfolios provide a consistent way to view the information provided by these tools and techniques so you can manage change events more effectively.

In *Taming Change with Portfolio Management*, we demonstrate how you can use portfolios to link operational planning, investment analysis, and work and resource management into a unified approach for handling change, from initiation to operation. By taking a comprehensive approach to managing change, you establish an extremely powerful set of tools that helps you make informed decisions, effectively execute the work needed to achieve them, and measure the value that your decisions create.

Although portfolio management brings tremendous benefits in each functional area of your organization, its greatest value lies in its ability to align the entire organization to successfully manage change. Portfolio management unifies your organization by improving communications and breaking down functional silos. Your organization will be more effective when all staff members can see and understand the impact of their decisions.

RELENTLESS CHANGE

While some organizations manage change well, others have found it difficult to adapt. In 1942 Harvard economist Joseph Schumpeter introduced the theory of "creative destruction," which defines change as the natural consequence of our economic system. He wrote that a market economy will "incessantly revitalize itself from within by scrapping old and failing businesses and then reallocating resources to newer and more productive ones" (*Capitalism, Socialism and Democracy,* New York, Harper, 1975, [orig. pub. 1942]) Our market-based system is built to cause constant change, and yet we are surprised when it occurs.

There are numerous examples of how the process of creative destruction led to the growth of one business and the disappearance of another. Consider the retailers Woolworth and Wal-Mart. The first F. W. Woolworth Company store opened in the late 19th century and pioneered the concept of offering customers a wide variety of low cost items in a self-serve environment. Over the next hundred years, Woolworth's adapted well enough to become one of the world's largest retail operations.

However, Woolworth's leaders eventually missed business environment changes caused by younger, more nimble and efficient competitors. Rather than refining its basic model, the company invested heavily in the acquisition of specialty retailers. By the 1980s, an over commitment to niche stores and an inability to adjust to change led to the destruction of the company. In 1997, Woolworth's closed the last of its U.S. stores and today survives only as a chain of Foot Locker stores.

Creative destruction brought about Woolworth's demise and the rise of Woolworth's greatest competitor—Wal-Mart. The history of Wal-Mart Stores is one of relentless change management in which the company continually refined basic retailing skills—merchandising, pricing, location, and especially, supply and distribution. The company's ability to get the right goods at the right prices in the right places on store shelves eventually overpowered Woolworth's and others. From a converted Ben Franklin five-and-dime store in Arkansas, Wal-Mart rode the wave of creative destruction to its position as the undisputed king of global retailing.

Take another look at *In Search of Excellence* (New York, Harper & Row, 1982), the classic business book by Tom Peters that profiled forty-three companies that exhibited the traits of excellence. How many of them are still leaders? Think of household names like Kmart, Digital Equipment Corporation, and Kodak. Where are they now?

Futurists agree that we are only at the doorstep of an era of intense change that will far surpass the rise of the Industrial Age. The technological breakthroughs that launched the digital age have already brought about such a rapid increase in change that the inner workings of most organizations are barely recognizable from just a few decades ago. While the year-over-year effects of these innovations may not have seemed very dramatic at the time, compared to the analog world of the late 1970s, the cumulative effects are significant.

Without question, our business environment will continue its rapid evolution, driven by an unrelenting stream of changes in technology and society. Are you equipped to capitalize on change or will your organization be left behind?

LEADING MODERN ORGANIZATIONS

Technological change has transformed our organizations and the business environment. We now create products and services from information and intelligence rather than steel or brick. Organizations have relocated production lines to emerging economies while they focus their attention on more innovative, intellectual endeavors. The exponential increase in our body of knowledge has led to more and more specialization in every profession.

With increased complexity and more specialization comes change in how we plan and execute our work. Dedicated project teams have become a luxury in most organizations. Instead, we now carefully orchestrate the skills of different groups of people to create and deliver complex products and services. The result is that organizations have become more collaborative.

They work with outside organizations, often treating them like employees. Product managers negotiate for the skilled individuals needed to do the work. Financial analysts often face a complex set of investment options. Brand managers are coordinating with groups throughout the organization to meet their goals. Project managers now focus more on communications and risk management. Resource managers deal with conflicting priorities from many sources with different agendas. Leaders often wonder if their organizations are actually implementing their strategic decisions. The building blocks of our business, our decision-making processes, are changing as rapidly as the economic environment.

The cumulative results of these factors can be summarized into a set of new and interrelated challenges:

- Increased levels of uncertainty that disrupt operational stability and impact long-term planning
- An increased need for innovation driven by the reduced life span of products and services
- More project-based work competing with ongoing operations for resources
- The emergence of human capacities, skills, and knowledge as the most critical assets of the organization
- Expanded reliance on expensive, specialized professionals, extended by the use of global third-party resources
- The need to have the proper information to make decisions in real time
- A more dynamic work environment that mandates planning flexibility at all levels of the organization
- The need to quickly communicate and coordinate changes in plans to maintain organizational direction, priorities, and focus

As a result, how we govern our organizations is changing as well. Governance defines expectations, grants power, and verifies performance. Portfolio management strengthens corporate governance by defining and codifying decision rights at each level of your organization, making it more agile and better equipped to manage change. Using portfolios enables you to

- Implement appropriate decision-making methods and tools
- Provide a clear view of how individual actions fit within the big picture
- Measure and assess effectiveness and improve future performance

MANAGING CHANGE WITH THE PORTFOLIO ECOSYSTEM

In natural terms, an ecosystem is a self-contained area in which the inhabitants function together and share a common physical environment. The mutually beneficial relationships that form between its inhabitants and natural elements are what make an ecosystem unique from other areas. However, an ecosystem is not self-contained nor is it immune to change. External factors like the weather and the introduction of new species drive it to evolve and adapt. The Florida Everglades offers a good example of a natural ecosystem that is constantly responding to change.

You can think of your organization as an ecosystem to visualize its operating cycle, interrelationships, and how it is affected by change. The basic concept is applicable whether you use it to describe a product line, program, department, or the entire enterprise.

The portfolio ecosystem in figure 1-1 models how organizations operate in a continual cycle of change. Each cycle begins by understanding your current operation and the value you are deriving from it. Change events cause your current operational state to shift, driving a series of change management stages that move it to a new, future state.

Each stage in the ecosystem represents specific change management actions that move the cycle forward. We will show you how to manage the cycle of change using strategic portfolios, investment portfolios, and execution portfolios. Each type of portfolio enables you to make decisions appropriate to where you are along the continuum of change.

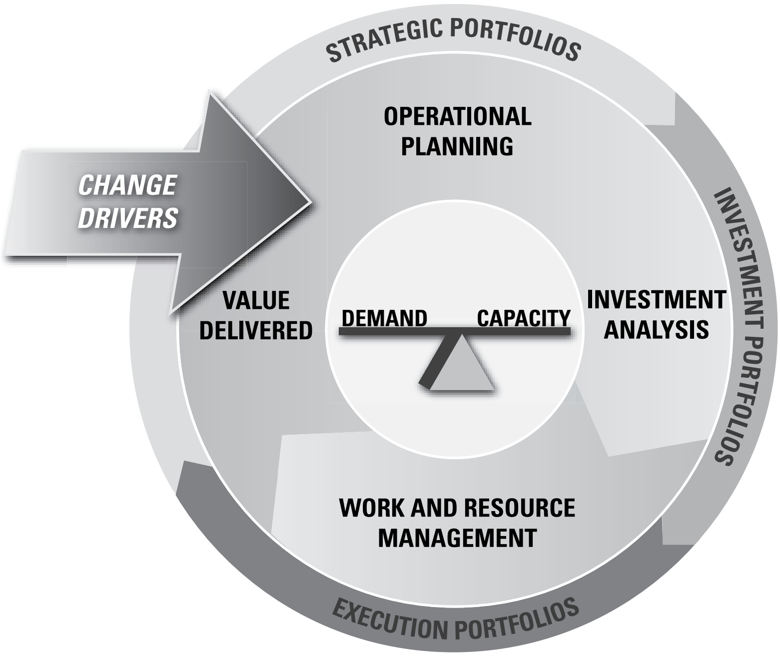

Figure 1-1: The Portfolio Ecosystem

The portfolio ecosystem reflects the primary business functions that you use to govern your organization. Because maintaining equilibrium between demand and capacity is a universal management consideration throughout the life cycle, we have placed it in the center of the figure. We refer to this as the *portfolio-balancing act*, which we develop more fully in subsequent chapters. Let's introduce the primary business functions and how the ecosystem relates to each type of portfolio.

Operational Planning

Operational planning begins when you analyze the current performance of products, services, assets, and the organization itself. This analysis gives you the information you need to evaluate the impact of change. As changes occur, you should consider ideas and opportunities that drive your organization's strategies in order to take advantage of those changes.

In turn, your analysis and brainstorming will provide you with high-level guidance—in the form of organizational objectives, strategies, budgets, and staffing levels—about how to meet demand by using your organization's capacities, primarily people and money.

You can use *strategic portfolios* to establish a foundation for measuring current operational performance, which provides a mechanism for collecting and analyzing information to support ideation and operational planning. The strategic portfolios can then be used to analyze and redistribute human and financial capacities to support new organizational goals and objectives. The information you gather in strategic portfolios forms the basis of high-level trade-off decisions about the best way to create value for your organization.

Investment Analysis

Investment analysis takes the high-level guidance developed by operational planning and helps you determine the best way to implement it. Typically investment analysis consists of making trade-off decisions between competing opportunities. This leads to a commitment of capacities (people and money) to meet the demand expected to produce the greatest value.

Investment portfolios start with the constraints and objectives of the approved operating plan. They are used to make comparisons between competing ways to implement the plan by considering factors such as strategic balance and alignment, timing, effort, risk, cost, and benefit. Ultimately, investment portfolios allow you to identify, approve, and fund for the best possible combination of investments.

Work and Resource Management

Work and resource management focuses on tactical functions including planning, execution, and delivery of the combined demands placed on the organization, whether they are ongoing operational activities or strategic investments.

Execution portfolios give managers a way to make priority and resource allocation decisions and strike a balance between the competing demands of many different tasks.

Measuring the Value Delivered

As work is accomplished and deliverables become operational, the results of the work are rolled back into strategic portfolios with other products, services, and assets. Your assessment, done as the first step in operational planning, provides the information needed to measure the value delivered from the business decisions. This change event life cycle defines how the portfolio ecosystem functions.

THE PORTFOLIO ECOSYSTEM IN A NONPROFIT FOUNDATION

We first apply the portfolio ecosystem to a small nonprofit foundation. We chose this example because it offers a simple way to illustrate our key points, and it shows how a variety of organizations can derive value from using portfolios.

This nonprofit foundation provides short-term transient housing assistance and social services to people in the homeless population who want to move to safe and secure housing and are willing to work for it.

The foundation's board of directors is made up of volunteers—people with a heart for the mission of ending homelessness. Using a third-party consultant, the organization applied portfolio management to prepare a current state analysis for its board in late 2008. Here is the organization's analysis.

Current State Analysis

Strategic Portfolio—These items encompass the current state of the foundation's programs and infrastructure:

- **Social services program**: The foundation has a client-intake process that selects homeless families who have the desire and ability to change their situation. The foundation has had a 90 percent success rate at moving clients to safe and secure housing. Over 75 percent of the time, the foundation's services have helped those clients improve their income.

- **Transient housing network program**: The foundation offered housing, food, and transportation to transient members of the community for 8 to 16 weeks while those clients stabilized their situation. The transient housing facility has a capacity of three hundred people per year, typically in family units.

- **Infrastructure**: The foundation's infrastructure is a combination of volunteers and paid staff. The organization was highly leveraged with the use of volunteers. Paid staff included trained social workers that offered the social services needed to "graduate" the clients to safe and secure housing.

Change Events—In 2009 some key changes occurred, they included:

- The recession caused all funding sources to drop 30 percent.
- The U.S. government moved funding away from transient housing to homelessness prevention and rapid rehousing.
- The recession left more families homeless, and confused about their options.

Ideas and Opportunities—Here are a few of the ideas and opportunities that were considered in response to the change events:

- Cut costs.
- Cut services or programs.
- Raise more money.
- Evaluate the impact of the new government funding plans; consider a new program?
- Look for ways to reach out to the newly homeless.

Investment Portfolio—After the board evaluated the potential responses to the change, it authorized the following investments of time and money:

- Cut costs by 10 percent.
- Go back to contributors to raise additional funds.
- Evaluate the government program to see if the funding redirection created opportunities.

Execution Portfolio—Taking the board's direction, staff developed the following projects, ranging from immediate action items to those running 2 years in duration:

- Require staff members to pay more of their health care costs.
- Add an additional fund-raising event.
- Appeal to past donors to give again in this time of need.
- Appeal to members of the volunteer network to give their money as well as their time to the foundation.
- Hire an external consultant to write a grant request for U.S. government funds.
- If the request is successful, repurpose some social services to work in homelessness prevention and rapid rehousing.

Update to the Strategic Portfolio—After 6 months, this was the value delivered from the investments:

- All program services continue, and there were no program cuts.
- The government grant request was successful, and the program now funds a social services caseworker, which has resulted in a repurposing of staff time from transient housing to homelessness prevention and rapid rehousing.
- Operational costs are down 10 percent.

Updates will continue to be posted quarterly until investment and projects are closed.

The nonprofit organization realized an immediate benefit from using portfolios. The board of directors got a clear picture of the current state and the impact of change events that led to investment opportunities. By using portfolios, the foundation was able to communicate the changes throughout the organization and react in a positive manner instead of being driven by events.

ADAPTING TO CHANGE EVENTS

We can use the game of soccer to describe the power of using portfolios in a unified manner. Soccer may appear to the uninitiated as unstructured and random; however, every participant has a distinct perspective on the game based on the role he or she plays. Participants apply these views to analyze the action and reposition themselves according to the plays and strategies of their game plan.

So it is with your organization. If you look at every change as a single, isolated event that threatens your survival, the people in your organization might respond like five-year-olds on the soccer field, "buzzing" around the ball like a swarm of bees. Using portfolio management, you will be able to see individual changes from a broader perspective and respond with fluid adjustments to your game plan. Once you understand that change is the nature of the game, it becomes a strategic tool.

Our goal is to provide you with a comprehensive game plan for managing change with portfolio management. Your team will function more effectively and efficiently when everyone is working from a common perspective of how your business operates. No matter what role you have in your organization, you will find some area of portfolio management that speaks directly to your immediate responsibilities. You will see how your decisions affect the flow of the complex game of business and improve the overall performance of your team, even under the pressure of continuous change.

KEY POINTS IN THIS CHAPTER

- ☑ Change disrupts the status quo; it is relentless and coming at an ever-increasing rate.
- ☑ Modern organizations face a unique new set of management challenges as a result of changes brought on by the digital age and other technological advances.
- ☑ The concept of "creative destruction" shows us that our economic system is built on relentless change, but we are still surprised when it occurs.
- ☑ The discipline of portfolio management is a unified decision-making process that allows an organization to embrace change and benefit from it.
- ☑ Balancing demand and capacity is essential to proactive change management; portfolios offer a mechanism to maintain this balance.

- ☑ The portfolio ecosystem models the core business functions of an organization that are impacted by the continuum of change.
- ☑ The primary business disciplines that are modeled in the ecosystem are operational planning, investment analysis, and work and resource management. There are three portfolio types that apply to each of these business functions:
  - o *Strategic portfolios* assess the current state of the operation, create guidance for the organization, and can be used to measures the value delivery.
  - o *Investment portfolios* are used to manage the commitment of money and people to work.
  - o *Execution portfolios* assign resources to projects and operations, which is the art and the science of getting things done.
- ☑ Portfolio management defines an approach to unify your organization by taming the power of change to deliver maximum benefit.

4

PORTFOLIO MANAGEMENT CONCEPTS

A PORTFOLIO GETS ITS NAME FROM A CASE used for carrying documents such as maps, photographs, or drawings. In a business management context, a portfolio allows you to group a set of common subjects, like products, projects, or resources, so they can be collectively managed. Portfolios are used to make change management decisions by comparing and ranking the subjects inside them. These comparisons and rankings are based on supporting information such as priorities; risk factors; and cost, effort, and schedule estimates. Processes collect information, link decisions, and measure performance through the cycle of change.

While working with an organization faced with the challenge of managing change, one executive told us the following story:

> The newly appointed CIO of a major corporation was called into the CEO's office. During the visit, the CEO was direct—"I am spending $50

million a year on IT and when I asked the last guy in your job where it was going, he couldn't tell me. Don't you make the same mistake!"

After 3 months of trying to find the answers to the CEO's questions, the new CIO realized that she needed a better approach. She had a lot of facts about operations and projects but lacked a way to explain the overall value that IT was delivering to the organization.

She needed help structuring the decisions that she and the business unit managers needed to make. She needed better information about what it was costing the company to implement technology decisions and what real impact those decisions had on company performance metrics—like revenue and profit. She wanted to improve communications throughout the organization on the value and risks associated with spending corporate resources on technology. She turned to portfolio management.

Your boss may not be quite so explicit in expecting quick and accurate answers about how you're using your organization's capacities. But, your company's long-term profitability and ultimate prosperity do depend on balancing your use of resources to achieve maximum return with acceptable risk.

USING PORTFOLIOS

Portfolio management is a set of disciplined processes that help you make smart decisions about change and efficiently execute actions stemming from those decisions to achieve your expected benefits. Implementation of portfolio management offers clarity of purpose, commitment to common goals, and consistent work execution to any organization that is under the pressure of change. Portfolios provide a way to view the information that you and your fellow executives need to make better-informed business decisions.

Given the general definition of portfolios that we offered earlier, you can apply portfolios to any number of decisions, subjects, and kinds of information in a business setting. However, to demonstrate their power and range of use, we will concentrate on the three portfolio types that we introduced in chapter 1: strategic portfolios, investment portfolios, and execution portfolios. Each type of portfolio supports a specific set of change management decisions and the needs of different users.

Sections 3 through 5 of this book describe the specific tools and techniques that you apply for each of type of portfolio. In this section, we present general portfolio management principles and concepts that are applicable to virtually any business management setting.

INFORMATION THAT SHAPES YOUR DECISIONS

The value of portfolio management lies in the flexible way that it allows you to view, analyze, and act on meaningful business information. Over the years, we have identified four broad types of management information that are pivotal to the decisions you make about change events:

- **People**, both direct staff and other resources (contractors, partners, etc.)
- **Money**
- **Work** you do (projects, operational tasks, etc.)
- **Deliverables** you produce (products and services)

People and money represent the primary *capacities* that you have. Using these capacities to perform work and create deliverables satisfies *demand*. Figure 4-1 further illustrates these information elements.

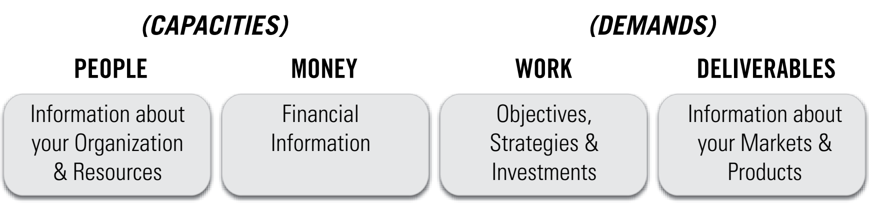

Figure 4-1: Primary Types of Portfolio Management Information

Obviously, every organization already has this kind of information in some form. Some of it may be very well defined, while other types may be less detailed or lack fully defined interrelationships.

For example, accounting requirements drive how you manage financial data, from general ledger accounts to individual expenses, so it is often contained within a detailed hierarchy. You may also have a well-defined organization structure that includes everyone and all reporting relationships. However, your organization chart probably does not reflect the contractors or partners who work with you. Not all organizations have their projects clearly associated with the strategies they support or document relationships between markets and products. It is also common to find that each type of information is stored in a different database, that a different application is used to access and manage each of those databases, and that different groups of people within the organization manage each information type.

Understanding this information, how it is structured, and how it relates to your decisions is a basic concept of portfolio management. Figure 4-2 provides an example of how you might structure information within these categories.

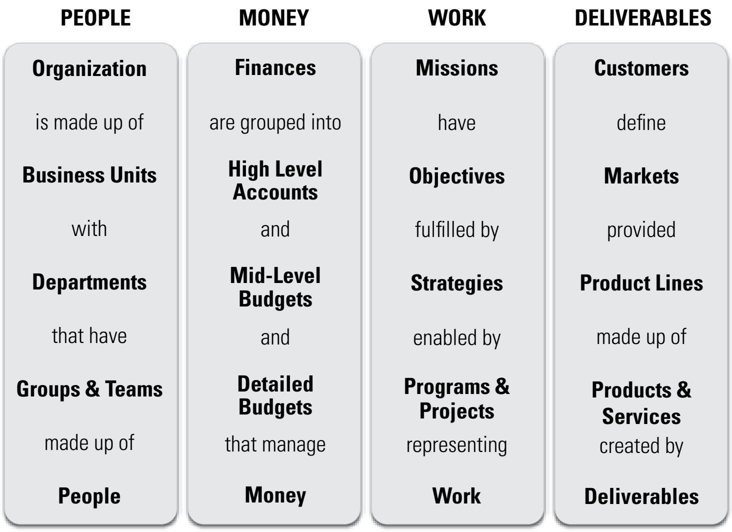

Figure 4-2: Portfolio Management Information Structures

As we move down the information structures in figure 4-2, each level represents an increasing amount of detail and the basic relationships between them.

In addition to the relationships and levels within each type, there is also significant value in understanding how one type of information relates to another. For example, you probably budget money to the organizational unit that is responsible for managing it. As a result, you might define financial cost centers according to the different levels of the organization chart. You may also structure resource teams based on the type of work they do or the products they support.

Any change that occurs in one type of information, such as investment decisions, affects information in other areas, like the organization, projects, or products. Figure 4-3 provides an example of how the information in these structures is related.

Information Structure Interdependencies

Organization	utilizes	**Finances**	to achieve	**Missions**	for its	**Customers**
Business Units	utilize	**High Level Accounts**	to achieve	**Objectives**	for its	**Markets**
Departments	utilize	**Mid-Level Budgets**	to achieve	**Strategies**	for its	**Product Lines**
Groups & Teams	utilize	**Detailed Budgets**	to execute	**Programs & Projects**	to produce	**Products & Services**
People	consume	**Money**	to perform	**Work**	to produce	**Deliverables**

Figure 4-3: Relationships Between Portfolio Management Information Structures

These relationships represent the most common elements of the business that you compare and manipulate with portfolios and those that are most prone to the effects of change. Whether you proactively initiate a change or respond to one caused by external influences, it usually has a direct impact on some element in one information area that reverberates though the others.

Because of these interrelationships, it is important that you have the ability to analyze change events across all of the management information structures we have noted. Otherwise, you run the risk of not fully understanding the consequences and implications of your decisions.

Portfolio management provides a method to define, structure, and align information in such a way that you can view different types of information simultaneously, at different levels of detail. You can use portfolios to collectively analyze and act on your key management information from any number of different levels and perspectives, depending on your specific needs.

WHERE PORTFOLIOS APPLY

The first generation of business portfolio management focused on making investment decisions, and as a result, primarily employed financial tools and information. Later, portfolio management concepts were applied to control ever-expanding project lists; what we now recognize as project portfolio management. In the past several years, portfolio management concepts have evolved into a broad business discipline to manage change through strategies, initiatives, products, services, and more.

We will use three types of portfolios to demonstrate the portfolio management concepts—strategic portfolios, investment portfolios, and execution portfolios. What differentiates one type from another is the subject matter that you are making decisions about and the depth of information that you use to make those decisions. However, the unifying factor is that they always deal with the same core information structures. The following sections describe how each portfolio type uses common types of information in different ways.

Strategic Portfolios

Strategic portfolios facilitate operational planning to guide the future direction of the organization. This includes:

- Assessing the current state of operations and change influences
- Establishing the objectives and strategies of the organization
- Allocating financial and resource capacities
- Measuring the resulting value created by these decisions.

Figure 4-4 reflects the broad scope of strategic portfolios.

Figure 4-4: The typical range of Strategic Portfolios

Even though operational planning may primarily act on the upper levels of the information structures, one of the purposes of strategic portfolios is to align and communicate top-down decisions. Any portfolio is just a specialized view of information based on the type of decision you are making; it is flexible and defined according to your specific circumstances and information needs. A single strategic portfolio could be all inclusive in smaller organizations, while larger organizations may use a strategic portfolio for each business unit and limit their information interests to higher levels. Section 3 of this book is devoted to conducting operational planning using strategic portfolios.

Investment Portfolios

Investment portfolios are specialized decision-support tools used to analyze, compare, and select potential opportunities that represent the best value, lowest risk, and greatest alignment with the strategies they support. Investment portfolios utilize the high-level guidance and constraints established by strategic portfolios to make trade-off decisions between competing funding requests relative to available capacities. Figure 4-5 offers an example of how investment portfolios apply to portfolio management information structures.

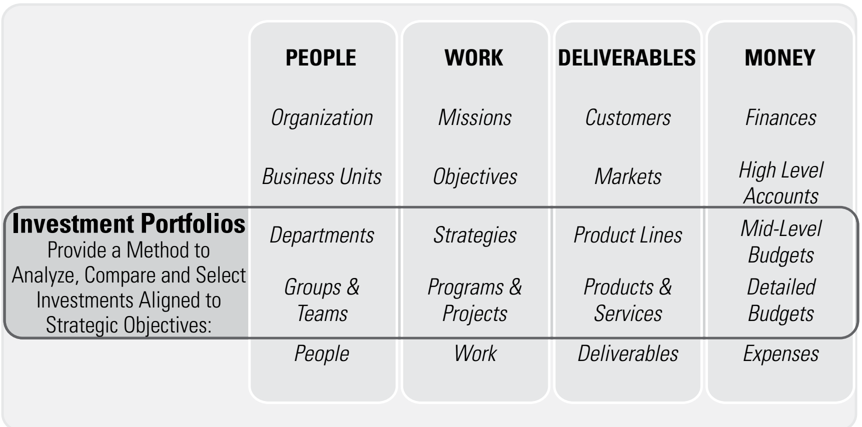

Figure 4-5: The typical range of Investment Portfolios

Section 4 describes how investment portfolios are used to assess and select the work that the organization commits to pursuing and to reconcile any differences between bottom-up estimates and top-down strategic guidance.

Execution Portfolios

Execution portfolios are used to manage the tactical details of how projects, services, and the activities within them are planned and executed as well as how resources are assigned and managed. Execution portfolios give managers the opportunity to organize and view data from common information sources based on their specific decision rights and needs. Managers can focus on the information and issues that are meaningful to them and coordinate their activities with other managers. Because of the relationships defined by the information structures, they can also clearly see how their actions relate to the bigger picture provided by strategic and investment portfolios (figure 4-6). Section 5 explains how to apply execution portfolios to plan and manage work and resources.

	PEOPLE	WORK	DELIVERABLES	MONEY
	Organization	*Missions*	*Customers*	*Finances*
	Business Units	*Objectives*	*Markets*	*High Level Accounts*
	Departments	*Strategies*	*Product Lines*	*Mid-Level Budgets*
Execution Portfolios Provide a Method to Collectively Manage Work and Resources:	*Groups & Teams*	*Programs & Projects*	*Products & Services*	*Detailed Budgets*
	People	*Work*	*Deliverables*	*Expenses*

Figure 4-6: The typical range of Execution Portfolios

PORTFOLIO MANAGEMENT TOOLS AND TECHNIQUES

Applying portfolio types, tools, and techniques to these information structures allows you to

- Visualize the elements competing for common resources and management attention

- Establish consistent and repeatable processes to accurately gather and compare information
- Define life cycles to address how this information is used and acted on throughout the change management cycle
- Define relationships between information structures
- Define decision rights for each level of information
- Compare and contrast alternative ways to invest money, utilize resources, establish schedules, set priorities, and perform other management actions
- Present consistent quantitative results to make objective decisions using analysis techniques such as
  - o Financial analysis
  - o Risk assessment
  - o Idea management
  - o Capacity management
  - o Planning and scheduling
  - o Performance measurement
- Communicate decisions throughout the organization so they can be acted on
- Assign resources to execute the work with confidence taking into account the complete spectrum of organizational demand
- Measure performance against the expectations defined by your business decisions

HOW PORTFOLIOS UNIFY YOUR ORGANIZATION

The extension of portfolio management across an organization allows multiple users in different roles to view common information in different ways:

- **Executives** use portfolios to set goals, develop strategies, govern the organization, control capacities, and monitor performance.
- **Market or brand managers** create portfolios to analyze market segments by demographics, geography, product lines, and so on.
- **Investment managers** have portfolios of investment opportunities.
- **Product managers** have portfolios of products or services.
- **Resource managers** have portfolios of staff by skill, location, or role.
- **Program/project managers** have portfolios of projects.
- **Portfolio management offices** support and facilitate alignment throughout the organization and provide common portfolio management methods and tools.

In every case, individuals are drawing on common sources of portfolio management information but are viewing and using it in different ways. They can arrange the information and pick the level of detail depending on their needs. They interact with each other and often see the real-time impact of decisions made by others.

The subject of the portfolio will vary based on the kind of decisions you are making and your role in the organization. Let's take a strategic portfolio as an example. The CFO might choose to define his view of the portfolio based on funding categories to understand how different deliverables, work, and resources are consuming capital versus noncapital expenses. The CEO might choose to arrange her portfolio view based on business objectives or product lines to see how they are performing and contributing to revenue. A business unit president may view his portfolio based on how different divisions of the organization are assigned strategic responsibilities.

While it is common for most organizations to use multiple portfolios, remember that the ultimate goal of portfolio management is to provide a unified view of change events from many different perspectives.

A CEO in a consumer products company found that he could control his strong-willed and ego-driven division managers by adding a vice president of strategy position. The new VP knew that he had to play the role of negotiator and arbitrator over a group that was generally used to getting its own way. His first step was to build an investment portfolio of all investment opportunities. Everyone was happy to add ideas to the mix.

He then built criteria to evaluate priorities and asked everyone to assess the options. The VP of strategy did not participate in the prioritization exercise; instead, the CEO provided the tie-breaking vote. The process was a dirty one, with politics and personalities often being injected in the middle of each decision, at least the first time. The investment analysis process resulted in a common investment portfolio that each business unit signed off on and that the CEO could use to track and evaluate the benefits ultimately created.

Even organizations that do not have the added obstacles of functional silos and fiefdoms will see the benefit of using portfolios to improve how information is collected, decisions are made, and initiatives are implemented. Effective portfolio management is applicable across a wide range of business process areas and organizational levels. While information collection may be mature and freely shared in some areas, that is seldom true everywhere. For example, one organization might have strong project management processes but be weak in investment analysis. A comprehensive approach to portfolio management is based on a unified, interlinked set of enabling business processes.

CREATING MEASURABLE VALUE

The vast majority of organizations struggle with measuring and analyzing the value of investment decisions once the results are operational. This practice is often referred to as the discipline of *Benefit Realization*. Whether for a single project or a new strategic initiative, organizations often lack specific operational objectives, which form the basis for comparing actual value delivered. Even if you have measurable goals established, you still need a method to compare actual product and market performance with total development and operational costs.

Applying the different types of portfolios across the information structures as we have described in this chapter gives you a way to link operational planning, investment analysis, and work execution to support benefit realization measures. Each type of portfolio provides a way to track changes through their life cycle, from current state analysis to operations. The strategic portfolio enables you to make the analysis needed to make change decisions and passes those decisions to investment portfolios for refinement. Investment portfolios give you a way to select investments based on specific parameters related to business value. These investment decisions are managed to completion using execution portfolios. The actual performance of resulting project and service deliverables is then measured using the strategic portfolio against original objectives.

The ultimate benefit of portfolio management to your organization is that it helps you create measurable value. It takes time, commitment, and perseverance; however, it is such a powerful capability that it is worth the effort to truly know the value that your decisions deliver to your organization.

BENEFITS OF PORTFOLIO MANAGEMENT

The ultimate objective of portfolio management is to tame change by providing a proven discipline for delivering value through informed decision making.

We would like to focus on three critical characteristics of the portfolio management discipline that leverage its power in taming change:

- **Transparency**: The goals and methods of reaching decisions are available for all participants to see. While individuals may not always agree with them, business objectives are clearly documented and communicated. Communicating decisions and inviting opinion from others is a high priority in portfolio management.

- **Discipline**: Strict adherence to consistent and proven methods that apply a systematic, quantified analysis approach avoids venturing into personality-driven dead ends and alerts decision makers to opportunities that might otherwise go unnoticed.
- **Trustworthiness**: Each person involved in the process understands how decisions are made. Trusting the process becomes a critical component in each person's proactive commitment to implement the decisions. Performance toward goals is communicated to everyone. It creates a mechanism for personal accountability through clearly articulated goals, achievable plans, and defined responsibilities.

When a decision incorporates these three traits, the result is greater collaboration in setting goals, improved decision-support information, and better execution.

Job security weighs in as a personal rather than organizational concern. Yet portfolio management also addresses this issue, as illustrated by the experience of the CIO whose story began this chapter. Through the use of portfolio management, the CIO was able to explain to the CEO the total cost of supplying IT products and services to the business units. Technology investments became an open discussion that included the business units as equal partners rather than something imposed by IT. The CEO was better informed and, as a result, he set about expanding the portfolio management concepts to the rest of the organization. In short, unlike her predecessor, the new CIO kept her job—and maybe a little more.

KEY POINTS IN THIS CHAPTER

- ☑ Portfolio management is a set of disciplined processes for making smart business decisions and effectively executing them to drive positive change.
- ☑ Four core portfolio management information structures help you gather what you need to make decisions about change events:
  - o People
  - o Money
  - o Work
  - o Deliverables
- ☑ Operational planning is how executives offer guidance to the organization.
- ☑ Strategic portfolios allow you to define and communicate organizational goals and objectives to the organization.
- ☑ Investment portfolios give you a way to compare and select the best opportunities to commit the capacities of the organization to achieving.
- ☑ Work and resource managers use execution portfolios to make work and resource trade-off decisions. Work in a knowledge-based organization is a blend of projects, operations, work orders, and functional work.
- ☑ Portfolio management enhances how you deliver value by linking together operational planning, investment analysis, and execution (work and resource) management to let you measure the value created.
- ☑ These are the critical characteristics of portfolio management:
  - o Portfolios result in trustworthy decisions that are understood throughout the organization.
  - o Portfolios are transparent throughout the process.
  - o Portfolios offer a disciplined process for decision making.