Managing Initiatives and Capital Assets with a Strategic Portfolio Perspective

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1. Introduction

Many organizations invest heavily in internal and external assets and initiatives. These often include information technology projects and operations, employee education and incentive programs, alliances and partnerships, and projects to develop new products and services. Organizations often spend as much as 20 percent of their operating budgets on systems to automate operations and enable new capabilities throughout the enterprise. Surprisingly, though, research and experience show that these firms do not think about these sizable investments strategically. Instead, they approach most initiatives tactically, analyzing each single initiative against financial criteria such as return on investment or net present value or simply against a plan. As a result, investments made from such analysis may produce only pockets of benefit and yield little in the way of synergy for the organization. Understanding the shortcomings of this kind of approach prompts important questions:

2. The Portfolio Management Implementation Approach

There is a holistic way to approach these initiatives in the strategic context of the organization’s mission and goals with visibility over all competing initiatives. The question is, "What does it mean to manage with a strategic portfolio perspective?" The first step is to gain a total view of all assets and initiatives across the enterprise and seek a purposeful prioritization and balance among them. This has been termed "taking a portfolio view" of the organization. The concept has actually been refined into a disciplined portfolio management process.

The idea of portfolio management has inherent appeal. It is hard to argue with the wisdom of aligning the selection and control of initiatives with the organization's strategic objectives, providing a sound foundation for achieving the goals of the organization. Just as taking a portfolio view of financial investments minimizes the risk of not meeting one's long-range financial goals, taking a portfolio view of an organization’s assets and initiatives places capital investment activity in the context of an organization or unit's goals and objectives and increases the probability that those goals will be met.

The correct way to apply a portfolio approach, however, is often not immediately obvious. For example, if balance is a key objective, then balance in terms of what? Is it long-term versus short-term payback horizons? Is the balance in terms of varying levels of risk? Is it the number of projects within business areas? What are all the elements a portfolio must contain? What about selection and review processes? How often should portfolio reviews be conducted? Are stage/gate reviews needed?

RG has developed a comprehensive portfolio management implementation approach that builds on more than 20 years of expertise in investment management and strategy execution. This approach ties strategic planning of an organization or unit within an organization with an evaluation of the firm's assets and initiatives on a continual basis through a portfolio-centric management process.

An organization using portfolio management will first consider the "strategic fit" of an initiative through an analysis and selection phase. The phase includes developing business value criteria for evaluating the proposed investment initiatives and determining how to allocate resources while maintaining balance among existing assets, initiatives, and projects.

Once the selection process is complete, the initiative becomes a project and is subject to the rigors of project management during the investment control phase. These rigors may be more stringent for some projects than others, depending on cost, strategic value, or other parameters. Each project is measured against planned cost, schedule, risk, and technical content projections. During this phase, as more accurate information becomes available, the portfolio management process measures progress toward realizing the strategic outcomes estimated in the initiative proposal phase. Stage/gate reviews are also used periodically during this phase to ensure that health and outcome projections are being met within thresholds set by senior executives. These reviews are used to redirect, and in some cases terminate, ongoing projects for failure to meet projected performance outcomes or health measures. In the evaluation phase after deployment, operational performance outcomes become more visible, and an evaluation report is fed back into the selection process to fine-tune selection criteria.

Senior executives continue the review process and consider new initiatives balanced against ongoing projects in light of these criteria that may have changed since the last review. An example is an organization's reaction to a rapid change in the business environment. Decision makers may decide to terminate a project that is no longer viable so they can apply more resources to another project to beat a competitor to market.

3. The Payoff

It is a significant accomplishment to acquire a total view of assets and initiatives in the enterprise level as previously outlined. In fact, any enterprise that accomplishes such a task has spent worthwhile time in the endeavor, often with immediate results. But the real payoff comes when the contents of the portfolio brought into an appropriate balance given the overarching goals it serves. In financial portfolios, such a goal might be expressed as "consistent income stream" or "maximum return on investment over a 10-year horizon." In an organization’s investment initiatives portfolio, goals can be similarly variable, involving differing levels of risk and anticipated return. The goal of the organization’s portfolio must be derived from its overall business strategy. Properly executing a well-balanced plan is the payoff.

The portfolio management process will provide visibility into all planned, ongoing, and operational initiatives, highlighting areas of need, exposing chronic investment sinkholes, and empowering management with the ability to maximize organizational value. It guides managers toward the opportunities with the greatest payback and reminds them to manage the many types of risk that can place that payback in jeopardy. A portfolio perspective is a valuable approach to managing investments, especially in light of today's volatile, high-risk environment.