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Portfolio-Driven Organization: A New Strategic Reality

Portfolio management has become a more important discipline in recent years, but it needs to be more than a management approach. It needs to be the hub of all your strategic work.

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The ability to deliver on strategy has never been more important than it is today. The right strategy, implemented effectively and efficiently, sets an organization apart from its competitors. It enables more progress to be made more quickly, and it keeps that progress aligned with the needs of customers. It ensures the organization is always optimizing its resources, achieving the highest possible returns for the available investments. In the highly competitive, fast-paced world of business today, the right strategy, delivered in the right way, really is the difference between success and failure.

Yet very few organizations are built to consistently deliver an optimized strategy. As Gartner notes, "Too many organizations leave innovation-driven strategy realization to chance. In a digital world, the probability of success due to chance is low, and the implications of failure are severe."[1] The strategic elements of their business—planning, project delivery, benefits realization, etc.—are not well integrated with one another, they aren't managed consistently, and they don't drive all the connected activities they need to succeed. This results in underperformance, and that opens the door for competitors. That's not something any organization can afford, so it must be addressed. That's where the concept of the portfolio-driven organization comes in.

Defining a Portfolio-Driven Organization

In the last few years, more and more organizations have recognized the value of portfolio management. They have made it an integral part of strategy delivery, connecting goals and objectives with project delivery and using it as a way to implement adaptive planning when changes are needed within the portfolio. Effective organizations have begun to evolve portfolio management from an administrative function to a strategic tool that keeps strategy delivery aligned with organizational needs. However, they are still not generating the kind of business returns that portfolio management is capable of delivering. To generate that level of return, organizations must put portfolio management at the hub of all strategic activity.

In a portfolio-driven organization, portfolio management becomes the driving force behind the achievement of organizational strategy. It is accountable for everything from the process of identifying opportunities through the attainment of benefits, and it ensures that all non-operational elements are aligned to optimize the ability to achieve goals and objectives.

Selecting investments successfully is a combination of three different elements:

- Portfolio planning and development. As soon as leadership has set the goals and objectives for the next period, portfolio management kicks in. It manages the process of reviewing ideas and opportunities, selecting the best prospects for business-case development and validating those business cases to ensure accuracy and completeness. Portfolio management then owns the project selection process, providing models for different project mixes within the portfolio, advising leaders on pros and cons of different options and supporting leadership decisions on which projects to approve.
- Portfolio management and execution. This is the aspect of portfolio management that is most familiar to organizations today. It involves the oversight of project execution for all portfolio initiatives and ensures alignment between current forecasts for the benefits those projects will deliver and the evolving goals of the organization. Portfolio management drives the evolution of portfolio initiatives to optimize the ability of completed projects to deliver those goals. This element must also include variance management when the benefits achieved by completed projects are different from the expected benefits. The portfolio must still deliver on enterprise goals even if individual projects fall short, and portfolio management must manage the portfolio to achieve that.

- Organizational preparedness. This is the most significantly different element of the portfolio-driven organization compared to today's concept of portfolio management. Portfolio management must ensure that the entire organization is optimized to deliver the benefits anticipated when projects are approved. To achieve that, the organization must not only be built to ensure all projects have access to the right skills at the right time and in the right numbers, but also that the operational environment projects are ultimately released into is capable of absorbing those projects with minimal disruption and maximum performance.

This third category, organizational preparedness, is where we will focus in the rest of this white paper, as it is the most different from the traditional view of portfolio management and the most difficult to implement effectively.

The Importance of Integration

Organizations cannot optimize their ability to deliver on goals and objectives unless every aspect of the business is integrated into the process. Product management can work with project teams to develop a new offering to customers, and it may be perfectly aligned with the demands of the target market. However, unless marketing can develop promotions to build awareness, sales can present compelling reasons to choose the product over competitive offerings, professional services can implement it effectively, customer service has enough people and knowledge to support the learning curve of early adopters, and finance can effectively manage invoicing and payments, the product won't succeed.

Some of those elements may be considered as part of the new product development initiative, but not all, and that work will only be viewed through the lens of that single product. In reality, the organization is developing multiple products, product upgrades, etc. that will impact the same departments and teams, and many non-product or service-focused projects will also impact those same operational areas—everything from compliance to automation to system refreshes. The greatest chances of success can only come when all of those changes are managed as part of an integrated approach.

That's where the portfolio-driven organization comes in, and it addresses real issues in real organizations today. As Forrester's research notes, "68 percent of business and technology leaders cite improving customer experience as a high priority, and 67 percent place the same priority on improving products and services."[2] In the portfolio-driven model, portfolio management works alongside existing organizational change management functions to manage all operational change as part of a single, integrated approach, ensuring it is aligned to optimize performance on experience and internal offerings. The specifics will vary from one organization to the next, and will evolve over time depending on the mix of projects that are being undertaken in any given period, but will likely include:

- Integration of changes impacting an operational area to optimize (not minimize) the number of times those areas are disrupted and to leverage efficiencies available by combining training, development, etc.
- Distribution of changes across different business areas to avoid creating "hot spots" of disruption in one part of the business, which will increase the likelihood of operational impact. This will also include periods of stability between change windows to allow for the previous set of changes to be accepted.
- Infrastructure investments that reflect all anticipated changes. The most obvious example here is technology—portfolio management works with IT to ensure that departmental technology investments are made with an understanding not just of what is needed today, but what will be needed in the next quarters and (when possible) years. This is particularly important with end user technology that is more difficult and expensive to upgrade if future project deliverables demand greater technology capability.

- Recruitment and development that anticipates evolving organizational needs, not just current workloads. People strategy has to be the most forward-looking element of an organization. Even deciding between buy (employ), rent (contract) or outsource (procure) for different roles and skillsets can be complex, and the lead time needed for recruitment and development in particular requires a strategic approach to human-resource-related disciplines that considers the needs of multiple quarters in the future.

Creating a portfolio-driven organization serves to align all of the elements of an enterprise that impact the ability to deliver results. In traditional strategy delivery, even where portfolio management plays a key role, the focus is on project execution and activities directly impacting those projects. By expanding the focus and ensuring that all impacted areas are focused on achieving organizational goals, the ability to perform is greatly enhanced. However, achieving this level of integration is not easy.

Creating a Portfolio-Driven Organization

The immediate first step in creating a portfolio-driven organization is to ensure that all business areas have a role to play in the portfolio planning and development work. We noted above that a portfolio-driven organization owns accountability for portfolio planning and development. In traditional annual planning, only a subset of business areas is seen as the drivers of strategy. That generally includes the C-suite of executives, supplemented by customer-focused areas of the business. Corporate support functions like finance have only a peripheral role to play, with HR and learning and development (L and D) frequently not being involved at all. Even IT is usually only involved to champion its own projects or to confirm resource availability for projects in other business areas. The technology implications of operationalizing those projects is rarely a consideration.

As a result, even though organizations are increasingly focused on business outcomes, planning quickly becomes about projects. The project is a convenient base unit for the portfolio, the self-contained entity that will be held accountable for enabling a particular business outcome to occur—a revenue figure, a cost reduction percentage, etc. However, that's not how organizations really operate. As soon as the project work is completed and the process of leveraging project outputs into business outcomes begins, the self-contained nature of the project ceases to exist. Instead, the product becomes just one of a number of different products; the new system becomes part of an integrated ecosystem; the automated process is just one step in an end-to-end operational approach. The ability to deliver business results depends on how quickly that integration into operations can occur and how little disruption is caused.

Involving the roles that own and influence that operational process in portfolio planning and development helps to change the conversation from one based on projects as individual units to one that considers a single integrated business: a more accurate reflection of the reality. In determining the optimal approach to determining the work to be included in the portfolio, we must still consider the traditional metrics of cost, benefits, risk, capacity and capability, but we must also add the ability to absorb change, the cumulative effect of multiple changes in the same business area, etc. Only when the impact of all of those areas is considered can we develop an effective portfolio with the confidence that it is capable of delivering the expected business results.

To build a portfolio-driven organization, we must also expand the time horizons of traditional portfolio management. While it is understood that the goals and objectives of the organization are designed to demonstrate progress toward achieving the long-term vision, the inevitable focus is on the current fiscal period. This short-term focus has become even more pronounced with the shift in recent years to shorter planning windows and the adoption of business agility concepts that result in evolving goals and objectives, and by extension, changing portfolio mixes. That trend is going to continue. Gartner reports, "By 2020, 55 percent of organizations will have a continuous, and integrated, business and IT strategy planning effort."[3]

A portfolio-driven organization must support this shift to continuous planning while still recognizing those areas where the required lead time for technology or (in particular) people change negates the ability to implement any adjustments to current goals. Similarly, it must consider the impact across multiple time periods of ongoing disruptive change, the anticipated implications of work that is already scheduled from other initiatives, etc. Far from being a negative mind-set, this is actually a very positive element that will result in improved portfolio decision making. Identifying those areas where adjustments are harder to make within a short time window allows the organization to focus on a smaller number of options and identify the best approach more quickly. It also results in choices that have a higher overall chance of succeeding—being unaware of a lead-time limitation doesn't make it go away!

Conclusion

In recent years, organizations have focused extensively on ways to execute on strategy. Through concepts like business agility and modern business management techniques like portfolio management, they have achieved significant progress. However, success is still far from consistent, and the latest evolution of portfolio management has sought to improve consistency by identifying some of the failings that still exist. Until now, that work has addressed relatively low-hanging fruit—improving executive control over strategic decisions or implementing the right investment and portfolio management software solutions and leveraging them in the right way.

Those improvements are important, but they still operate with the fundamental assumption that a portfolio is made up of a number of projects, each of which is tied to one or more corporate goals. To shift to a portfolio-driven organization, we must move to a new reality that the portfolio consists not of independent projects but of a series of connected business changes that combine to achieve all of the organizational goals. While projects are the framework for completing the development work, the benefits only come from the integration of that development work into a complex operating environment, and that requires much more strategic engagement of those operational functions than has historically occurred. It needs a portfolio-driven organization.

About the Author

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2 Margo Visitacion, Forrester Research. "Eight Steps to Optimize Strategic Portfolio Management. Strategic Plan: The Strategic Portfolio Management Playbook," February 1, 2018

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