Formicio Insights
On business operations, technology, people and change

Developing portfolio management as an organisational capability

Most organisations have a process for prioritising and scheduling change initiatives. Often called portfolio management, its aim is to ensure that all change initiatives deliver value. This value can be defined as strategic imperatives, operational outcomes, vision or an improved future. The question is how effective is this process and how well does it stand up in a world where priorities are continually changing?

Why is portfolio management important?
In 2011 The Standish Group published research showing that only 16% of projects are completely successful, while 53% under-performed and 31% were cancelled. Other recent research shows that from a sample of 175,000 projects in the USA with a combined budget of $250 billion, 53% overspent by 89% and 82% over-ran. Furthermore, across the European Union it is estimated that the cost of project failure is in excess of Euro 142 billion.

Many leading academics and researchers, including Professor Peter Weill at the MIT Sloan School of Management, have concluded that while most organisations had got better at project management, they are still poor at programme management and only a handful effectively practised portfolio management.

The evidence therefore indicates that while there is still more to be done to improve *how* change is delivered – through better project and programme management – the greatest benefits could come from the process of deciding *what* should, and should not, be in the portfolio of change.

Developing portfolio management as an organisational capability
So, what would you expect to see in an organisation that has developed portfolio management as an organisational capability? Firstly let's begin by defining portfolio management as the organisational capability to *build and maintain a dynamic, balanced portfolio of activity – initiatives, projects and programmes – which directly contribute to achieving the target improved future*. The characteristics that I would expect to see include:

- Clarity of the target improved future, typically translated into a small number of strategic imperatives.

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What can we learn from financial portfolio management?

Portfolios are part of the bedrock of any financial services company and companies in other industries are increasingly looking to use a similar approach, not with stocks and bonds, but with business projects, according to Martin Lockett, Bert De Reyck and Andrew Sloper of the London Business School.

However they point out that it's important to understand the key differences in managing a portfolio of financial instruments versus a portfolio of business projects. The most noticeable differences being that business projects often have complex independencies and cannot easily be sold.

Furthermore, financial portfolio theory is essentially based on a bottom-up approach, where investment opportunities are valued independently in terms of how much value they add to the portfolio. Whereas business projects are created to achieve a strategic objective and may be reshaped during execution.

To read their full article, click here.

Building organisational capabilities is a top priority

Nearly 60% of respondents to a recent McKinsey survey said that building organisational capabilities was a top-three priority. Yet only a third of companies actually focus their training programmes on building the capabilities that add the most value to their company's performance.

Notably, the majority of companies don't focus on developing a specific capability for competitive reasons; most often, the reason is that the capability is part of their culture. Furthermore, some three-quarters of respondents didn't think their companies were good at building the capability that is most important.

Not surprisingly, at companies where senior executives set the training agenda, the

- A small number of objective criteria, which are used to assess and evaluate each and every initiative in the strategic context.
- A non-bureaucratic process, with an owner.
- Simple and easy-to-understand portfolio categories (three to four).
- Governance with clearly-defined roles, accountabilities and decision-rights.
- Transparency, honesty and maturity that enable ‘crucial conversations‘.
- An environment where egos and reputations don’t get in the way of doing what is right for the enterprise.
- Everyone taking a perspective that is right-to-left and top-down– not left-to-right, bottom-up.

The rewards are significant
The benefits of taking a portfolio management approach are enormous as it can give greater confidence that the projects and programmes within the portfolio are the right ones to move an organisation along the correct trajectory to an improved future.

If you would like to read my full article that includes a case study where the CEO chairs the portfolio management process, click here.

I welcome your thoughts.

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resultant programmes are seen to be more effective in driving business performance.

Understanding the management and leadership implications of social media driven transformation

The interactive technologies of social media have the potential to transform organisations in ways that were not imagined a few years ago. The question no longer is should I, as a leader, take these technologies seriously, but how should I introduce them into my organisation in a way that adds most value?

We are now inviting business and technology leaders to participate in a Collaborative Exploration to explore how social media technologies can transform organisations.

More details can be found on our website.

Parting thought

"The great thing in this world, is not so much where we are, but in which direction we are moving."

Oliver Wendell Holmes Sr
American physician, poet, professor and author
1809 – 1894