

*Project Delivery in  
Business-as-Usual  
Organizations*

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GOWER

# *Projects as Agents of Strategic Change – Portfolio Management*

## **ROADMAP FOR CHAPTER 5**

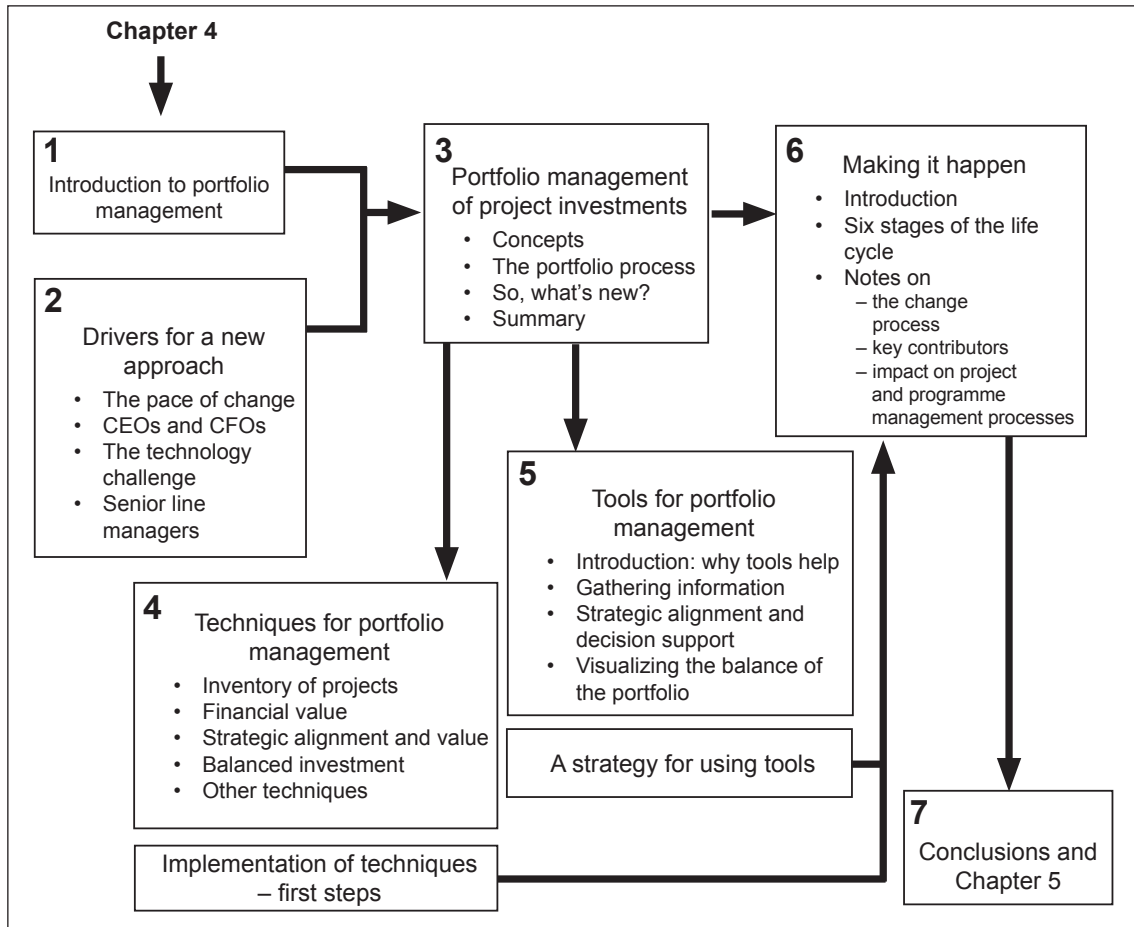
This chapter builds upon the principle established in Chapter 4 – that if projects are to be successful agents of business change then their contribution to the organization's strategic agenda must be clear. Programme management has helped to provide this clarity of contribution, but has not been fully successful, so I will recap on some of the shortcomings of programme management in this regard, then describe the practical application of a technique that seeks to manage all of an organization's change projects and programmes as a portfolio.

This approach has much similarity with portfolio approaches to managing a number of financial investments. It is attracting increased attention as a more complete means of portraying projects within a broader, strategic context and hence of better managing the investment in business change. It also aligns projects with the organization's strategic agenda in a way that is more in tune with the cultures and existing business processes of BAU organizations.

## **1 INTRODUCTION TO PORTFOLIO MANAGEMENT**

It is with some trepidation that I use the term 'portfolio', given the debate that the project management profession has had over the past ten years on the difference between projects and programmes. I hope you will see the differences and why a growing number of companies are considering portfolio management of project investments to be one of their mission-critical processes.

Chapter 4 described the use of programmes as management frameworks to align projects with strategic goals and as agents of business change. It covered the advantages of this approach, which start with better management of multi-project issues such as dependencies and resources, then build with the much better focus



### Roadmap for Chapter 5

that programme structures bring to managing change – for example, improved management of the transition of projects into BAU. As change management factors are the key cause of so many project failures, this is a significant benefit.

In addition (and as we would expect because programmes are management frameworks for delivering benefits) we have gained improved attention to the benefits of projects. We question how project deliverables lead to business outcomes and business benefits and we can use this to prioritize projects within a programme. The concept of benefits enters our executive glossary.

However, Chapter 4 also raised some serious issues with the deployment of programme management in BAU cultures. First of all, and it is an uncomfortable fact, no one in the business likes the concept of benefits management. It is a very hard sell. It promotes a transparency of project returns that sounds great in theory but is resisted strongly in the real world, where we each like some room for manoeuvre.

Second, line managers in the business often change their roles before the programme runs its course and the ownership of new managers taking over existing programmes is usually weaker than that of the programme's originators, so programmes weaken, as do their benefits cases. This is very different to what happens

in projectized organizations, where the objectives of the project or programme are less subject to interpretation and politics and where changes in the programme manager do not typically result in changes of objectives.

Third, it is very difficult to differentiate between programme benefits and BAU benefits on most projects – even with benefits management techniques.

So, in the real world, I have suggested that benefits management, the central process in the programme, is actually very difficult to fully embed in the organization.

These are significant issues for programme management, but there is a broader concern as well. It seems that controlling benefits, valuable as it is, does not supply the whole answer to ensuring strategic alignment of all our projects. If each project or programme serves its business owner and stakeholders to the best of its ability, with a solid business case, aren't we still left with further questions?

- Isn't the measure of strategic value to the organization something more than benefits anyway? Techniques of benefits management, even when addressing both tangible and intangible benefits, do not seem broad enough to measure strategic value.
- How can we ensure that we have the right blend of projects across the organization – the right balance of risk and reward, of short- and long-term paybacks, of innovation and research projects compared with well-defined business initiatives?
- How can we balance investment across the programmes, and how can we justify investments that cut across all the programmes, for example IT infrastructure? The balance between investing in projects with immediate (customer-facing) business benefits and investing in infrastructure for longer-term benefits is a classical dilemma for BAU organizations and the less attractive infrastructure investments still tend to be left out from the scope of business programmes.

These are real concerns when an organization might be spending 20 per cent of its annual operating budget on projects. Recent industry studies have indicated that about 40 per cent of this investment in business change is wasted due to lack of alignment with business strategy, so perhaps 8 per cent of an organization's operating budget is currently being spent upon initiatives that will not deliver added value.

## **2 DRIVERS FOR A NEW APPROACH**

The concern that programme and benefits management are not the full answer to the problem of aligning change projects with the company's strategic agenda is the key driver for a new approach; and it is felt across the organization.

## THE PACE OF CHANGE

BAU organizations are subject to increasing levels of change and volatility in their business. While we all appreciate this fact of business life, we should also reflect that it drives a relentless increase in the proportion of an organization's activity that is dedicated to change (= projects). BAU organizations are typically not structured to address this increasing proportion of change activities (they are, after all, BAU organizations!).

Companies have to face the challenge of too many projects, partly mitigated by the disciplines of programme management, all competing for priorities and all with positive benefits cases. Furthermore, and even with techniques such as staging, the delivery times for the more complex projects and programmes are actually longer than the realistic planning horizon of the company. So, increasingly companies are not merely asking themselves the programme management question of 'Are we doing the right projects?' but are having to regularly ask 'Are we *still* doing the right projects?'. They have been seeking a more holistic means of doing this than programme management.

## CEOs AND CFOs

In today's business world, chief executive officers and chief financial officers have many conflicting priorities and concerns when considering investing for the future of their organizations. In a volatile world they need options on the future and the ability to change direction as strategic opportunities and BAU performance change but they are typically faced with a less than perfect process to make investments:

- We have too many projects.
- We never cancel any projects.
- Each project has a positive business case, so why is it that the aggregate impact of the projects is insufficient?
- Our project spend does not match with the key growth areas of the business.
- Where are the benefits?
- This is 20 per cent of our cost base; we do not know what we are getting from it.

## THE TECHNOLOGY CHALLENGE

For many BAU organizations, a key component of each change project is technology. The technology function typically has more demand than it can handle. Projects are numerous, so technology costs are rising and as the IT function's budgets make up an increasing share of the company's total budget the pressures have grown upon their leaders – the chief information officers or chief technology officers. Chief executives are asking the hard questions:

- Is technology delivering value from its investments?
- Are the investments aligned with business needs?

- Is technology optimizing its use of resources?
- Are we building the same deliverables many times?

CIOs have been seeking a means of showing the business that they are optimizing investments and responding to ever-changing business needs. They want to do this in a more analytical and structured manner than has been the case historically. However, they typically do not have the right information available because their own management information systems have focused more on the effective use of existing technology assets than on their performance in supporting the business's change agenda.

So, CIOs are looking for a better way of depicting the aggregate contribution that IT makes to the business.

## SENIOR LINE MANAGERS

Other managers are also concerned. Project proposals are presented to them in an ad hoc manner, so it is impossible for the managers to prioritize them. Managers also feel that project teams make premature funding requests (to be first past the post in seeking funding) and this means that some later, but valuable projects will not receive funding. Business cases have questionable benefits and the linkage to strategic goals is unclear.

Project proposals are often made after significant analysis by the project team, who therefore want rubber stamp approval, not an open debate about alternative approaches.

In the new millennium, senior managers also face new challenges. The heady days of e-commerce, when business cases were considered as bureaucracy, have been replaced by a new realism and focus on adding shareholder value. Clear accountability for financial control is essential and becoming a personal legal liability with US legislation (Sarbanes-Oxley)<sup>1</sup> likely to be the forerunner of other national legislation.

Senior managers are looking for a more structured process to determine investment priorities than they have traditionally used.

## 3 PORTFOLIO MANAGEMENT OF PROJECT INVESTMENTS

### CONCEPTS

A few companies have been using an approach that manages a set of initiatives in the same way as one might manage a portfolio of financial investments. They are taking an enterprise-wide view of all project investments and are seeking to regularly review that the investments are being made where they return the highest strategic value. The approach typically also includes techniques for assessing that the portfolio is a balanced

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<sup>1</sup> The Sarbanes-Oxley Act of 2002 was passed by the US Congress to protect investors from the possibility of fraudulent accounting activities by corporations.

set of investments – balanced in the sense that its shape matches key strategic goals and is a sensible compromise of risk and reward across the enterprise.

The objective is to arrive at a portfolio of investments that does not necessarily include just the projects that are individually most attractive, but includes the set of projects that collectively best meets the strategic goals of the organization. The approach tries to think in terms of optimization, not merely prioritization.

The companies where this approach has been used are typically in the fast moving consumer goods, chemical and pharmaceutical industries; all industries where a broad range of projects or new products must be managed, where markets can be volatile and where significant bets must be made about future business direction.

Portfolio management uses principles that BAU managers can relate to more easily than the complexities of programme management:

- Just as an investment manager would appraise a portfolio for risk, return and balance and regularly make ‘buy, hold, sell’ decisions, an organization can appraise and manage a portfolio of projects and start, continue or stop individual projects.
- Just as an investment manager must meet the needs of each customer (including their own desire to assume some risk for a given level of return), an organization must meet various needs from its investment in business change and must satisfy various stakeholders.
- Just as an investment manager wants to make a satisfactory return on investment, an organization wants to be able to effectively allocate its own financial and human resources.

This approach is less prescriptive than the defined disciplines of programme management. It also responds to the other drivers mentioned above. The approach offers a more holistic means to assess projects in the strategic context of the organization.

Recalling the earlier picture (Figure 4.2) of the pyramid where it was suggested that programmes could bridge between business strategies and projects, it seems that portfolio management can provide a more holistic bridging layer between overall business goals and both projects and programmes. See Figure 5.1.

In addition to the concept of a portfolio that is regularly adjusted to suit the organization’s strategic goals, these companies have typically also managed projects as a series of stages, each stage ending in a formal review or decision point (‘gate’) that decides if the project’s value still warrants its continued place in the overall portfolio. Just as an investment manager regularly reviews that each investment still warrants a place in the portfolio, the organization wants to know that each project still meets some criteria of worth and should be allowed to continue.

The portfolio management process, therefore, complements a regular review of the worth of the portfolio with a stop/go assessment of each project’s unique

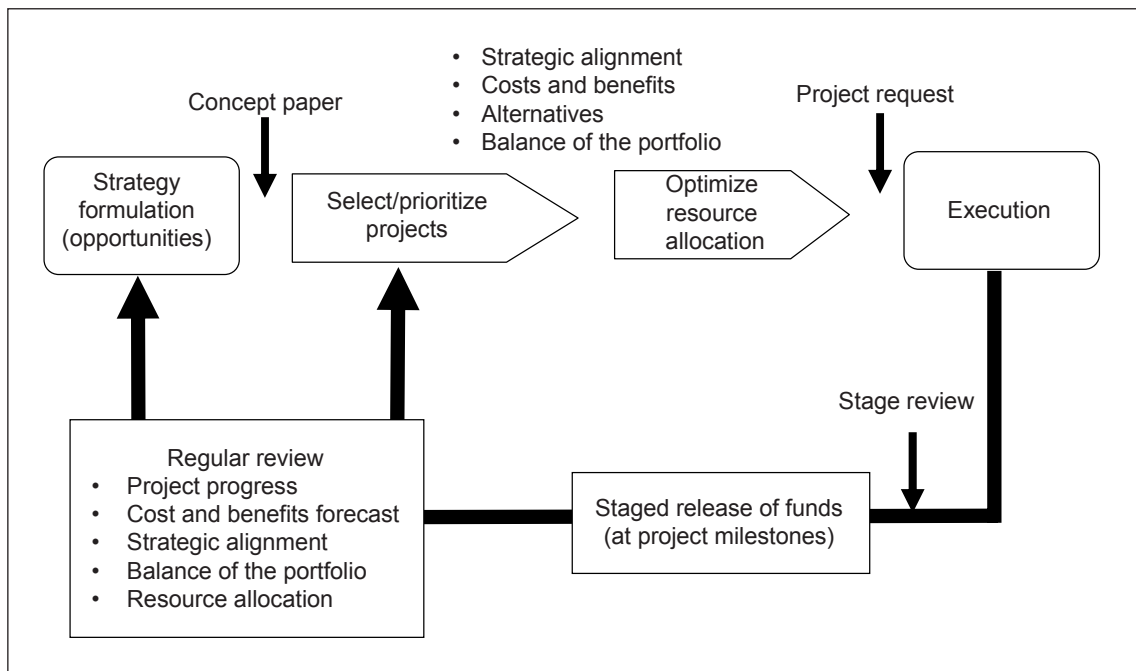
worth at some regular points in its life cycle. Commentators emphasize that both portfolio review and stage gate processes are required for a successful process, but that the emphasis between the two depends upon the culture and needs of the organization.



**Figure 5.1 Strategic alignment through a portfolio**

### THE PORTFOLIO PROCESS

In summary, the process is shown in Figure 5.2.



**Figure 5.2 The portfolio management process**

Potential projects or programmes are put forward for review at as early a stage as possible. A brief statement called a 'Concept Paper' is used to allow management to assess whether the project fits with the financial and strategic goals of the organization. Of course, many BAU organizations will already use some staged form of project approval, but the first management approval often takes place after some initial feasibility work. Under portfolio management we are trying to assess the desirability and strategic fit of a potential project at a much earlier stage. We want the ability to influence events, preventing project teams from closing options that senior management might want investigated.

Based upon strategy, we then select and prioritize projects, not just by benefits but by their strategic value and by their impact upon the performance and balance of the portfolio of existing projects. There are a number of techniques to assist holistic decisions at this stage, using various criteria for the strategic alignment, value and risk of projects. Approval of the concept of the project leads to the project submitting a 'Project Request' for funding; this confirms not just the desirability of the project but its feasibility. On major projects, even this piece of work will require some funding, which the Concept Paper will have sought.

For major projects we also stage the release of funds. Of course this is a feature of project and programme management but in the context of the portfolio it would be pointless to undertake a regular review of the portfolio if one is locked in to a set of long-term projects that prevent any re-balancing of the portfolio. Hence the Project Request will describe both the overall project and, in some greater detail, the costs, deliverables and benefits of the first stage of the project. At the completion of each stage, a 'Stage Review' will seek continued funding. This Stage Review is an updated Project Request, which notes whether previous commitments have been achieved and then makes a request for funding of the next stage.

We continue the portfolio process with regular reviews of the value and balance of the entire portfolio, because in today's volatile world one must regularly ask 'Are we still doing the right projects?'

We need a management forum to review these Concept Papers, Project Requests and Stage Reviews and then to monitor the performance, balance and alignment of the portfolio – a 'project investment committee' (or 'investment board' as some organizations have termed it) that has broad representation from across the organization. In some organizations the committee might be called a 'change coordination committee', reflecting the desire to manage the impact of the changes produced by multiple projects as well as the investment capacity of the organization.

If the organization is made up of multiple divisions, then each division should have such a committee to manage its own portfolio. Group/head office should have a similar committee to manage the aggregate of these portfolios across the organization and to approve cross-business projects, typically for technology infrastructure or merger and acquisition activity.

## SO, WHAT'S NEW?

The reader's challenge at this point might be 'Hold on, isn't this just a different way of expressing a programme management approach? It includes a methodology of stages, it focuses on business benefits and it allows the management of multiple and competing projects.'

Of course, the portfolio management approach does share these features, hence is similar in its goals to programme management, but the key differences are that it:

- takes a broad view of the strategic contribution of a portfolio of projects, broader than benefits management, as will become clear later in this chapter when we look at portfolio management techniques;
- adds the concept of balanced investment across the enterprise, allowing us to address concerns such as justifying investment in infrastructure or innovation;
- forces a regular review of investments across the organization (which can be compared with the more localized review that takes place within each programme under a programme management methodology);
- is presented as a top-down view of translating strategy into projects and programmes, which is inherently more in tune with the way that executive BAU management thinks;
- is managed through a business-driven investment committee (that is, as a part of BAU business development) not a discrete or specialist programme steering committee.

## SUMMARY

That is the portfolio management process – intentionally simple and focused on provoking top-down debates about strategic alignment as well as bottom-up debates about programme performance. It has been used for some time in companies, but often for product development rather than business change projects.

There are recognized processes and techniques for appraising the value and balance of the portfolio, and increasingly there are tools designed to support the process.

The techniques of portfolio management are worthy of note. The concept of managing investments as a portfolio is quite simple to appreciate. But how, in practice, does one assess the strategic alignment or strategic value of a project? Which factors are important when assessing the balance of the portfolio? It is the answers to these questions that provide the added value of the portfolio management process and show how the theory can be effectively put into practice.