

# Portfolio Management Fit for Executives

ProjectWorld 2011

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# Learning Objectives

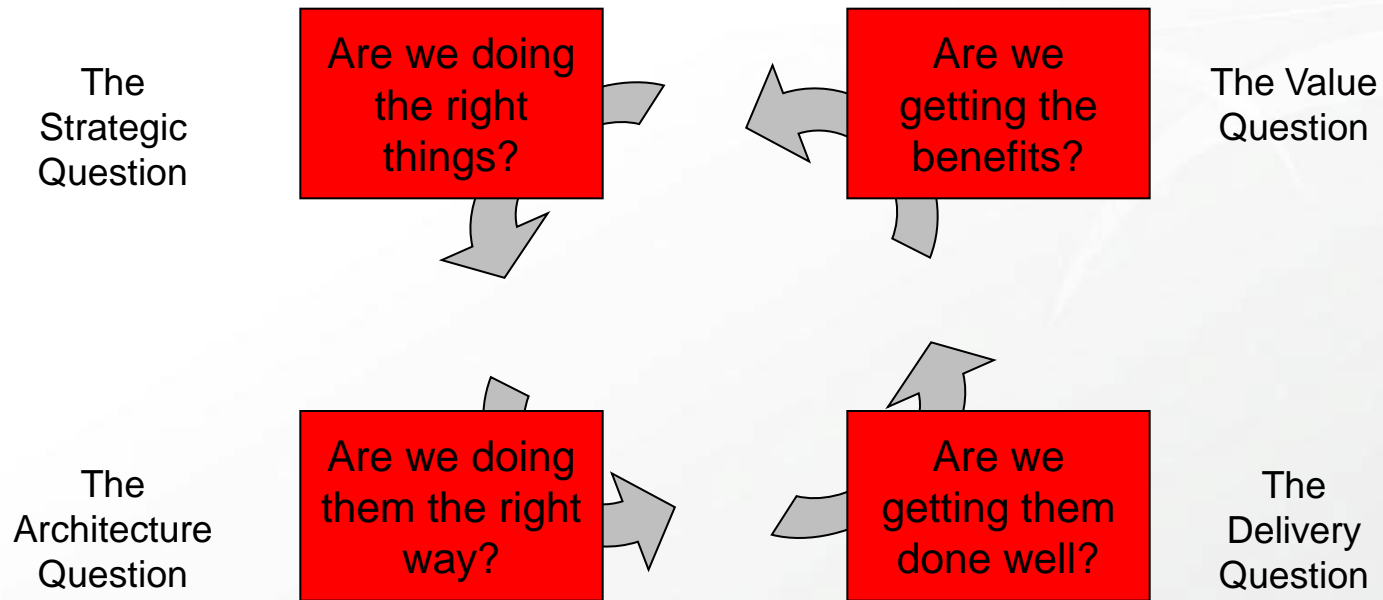
- At the end of this session, participants will:
  - Identify when an alternative approach to portfolio management is needed, and when the traditional approach is valid, depending on whether the organization is in a transformational or incremental improvement mode
  - Understand the relationships between financial outcomes, business outcomes, capabilities and initiatives, and how this understanding can be used to define programs and projects, using the Results Chain tool.
  - Understand an alternative way to develop business cases, based on the expected contribution of each initiative to the financial results of the organization.

# Is there a problem to solve?

- Realizing Value from IT investments is a challenge for most organizations
  - IBM Survey: Fortune 1000 CIOs believe that 40% of all IT spending brought no return to their organizations
  - Gartner Survey: 20% of all expenditures in IT is wasted (\$600 billion globally)
  - Other surveys: between 20% to 70% of large-scale IT investments is wasted

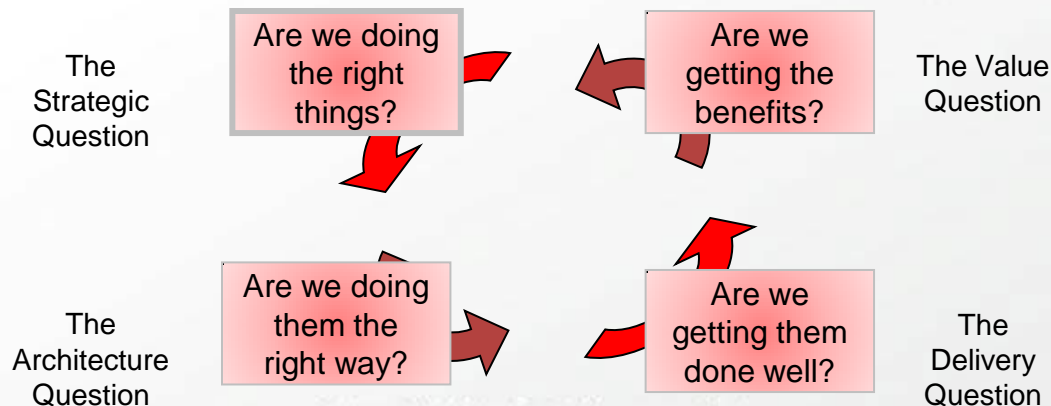
# Is there a problem to solve?

- If investments are not generating value, which “are” is to blame?



# Is there a problem to solve?

- This presentation will provide an integrated approach for the top two
  - If project selection is flawed
  - Architecture and delivery cannot compensate
  - Benefits become a matter of chance



# ¿What's wrong with portfolio management?

- What companies are doing:
  - Capture ideas through a “funnel” process
  - Progressive elaboration of a business case
  - Ranking of opportunities of investment, based on value, risk and other factors
  - Selection is made based on a prioritized list
  - Usually a yearly process
  - Business case are used to assess benefit realization
- All very logical and sound, but...

# ¿What's wrong with portfolio management?

- Frequently, PMOs face the scenario:
  - Executives have their own list of projects or different priorities
  - Business cases are just a formality, and not the basis for decision making
  - Executives ask for everything, not just the “top of the list”

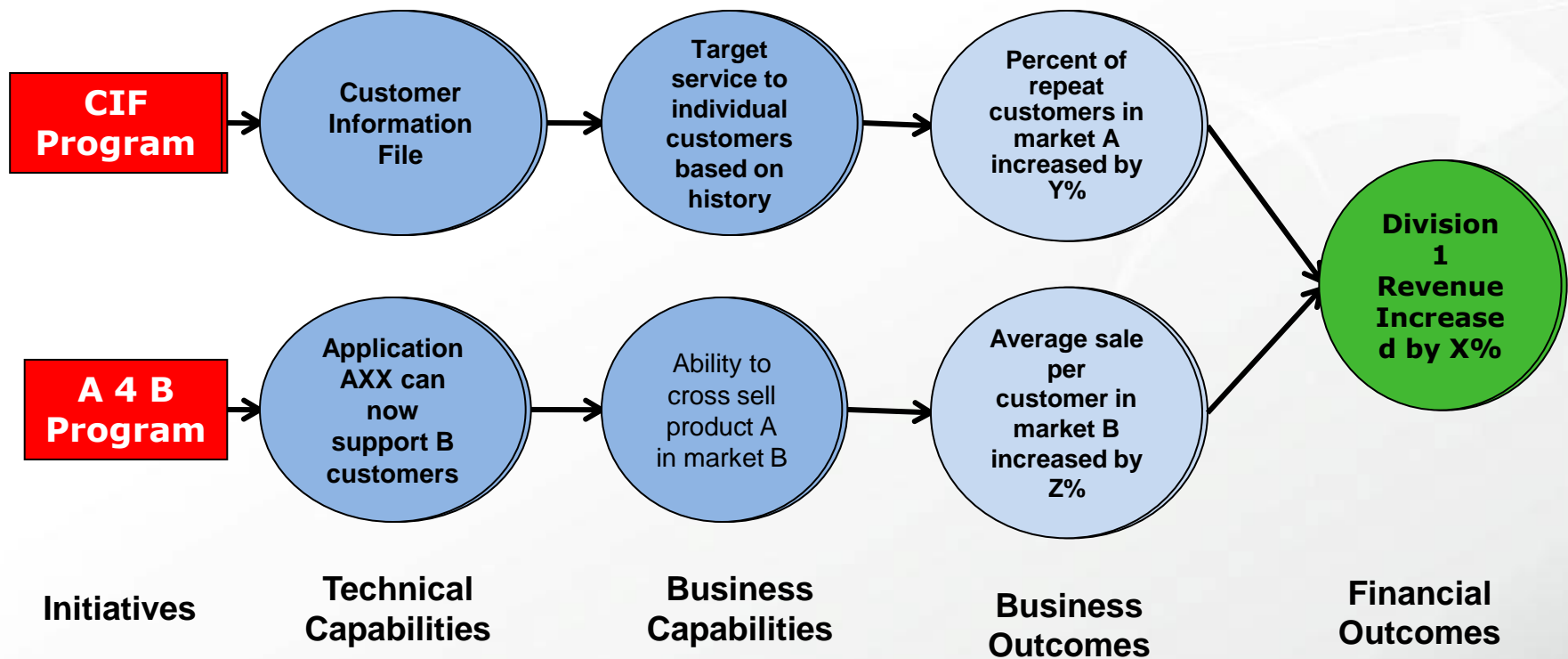
# ¿What's wrong with portfolio management?

- So what is the root of the problem?
  - The traditional approach for portfolio management is based on the assumption that opportunities for investment are independent
  - This is only true in stable organizations looking for incremental improvement of their current business
  - In a transformational scenario, investments are, by definition, interdependent



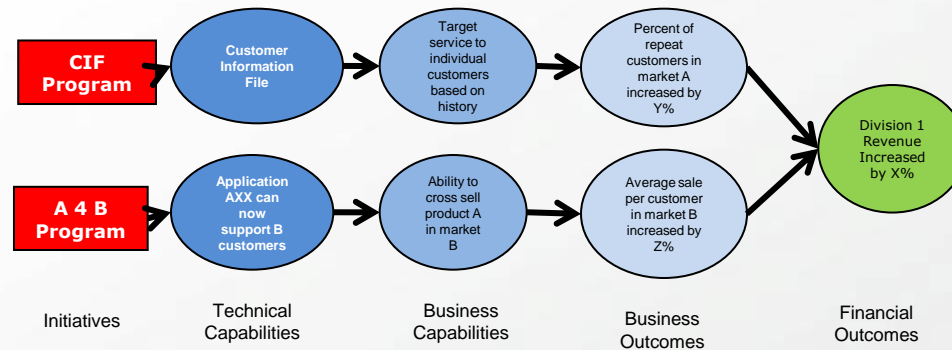
# Incremental Improvement of the Current Business

An example of potential investments



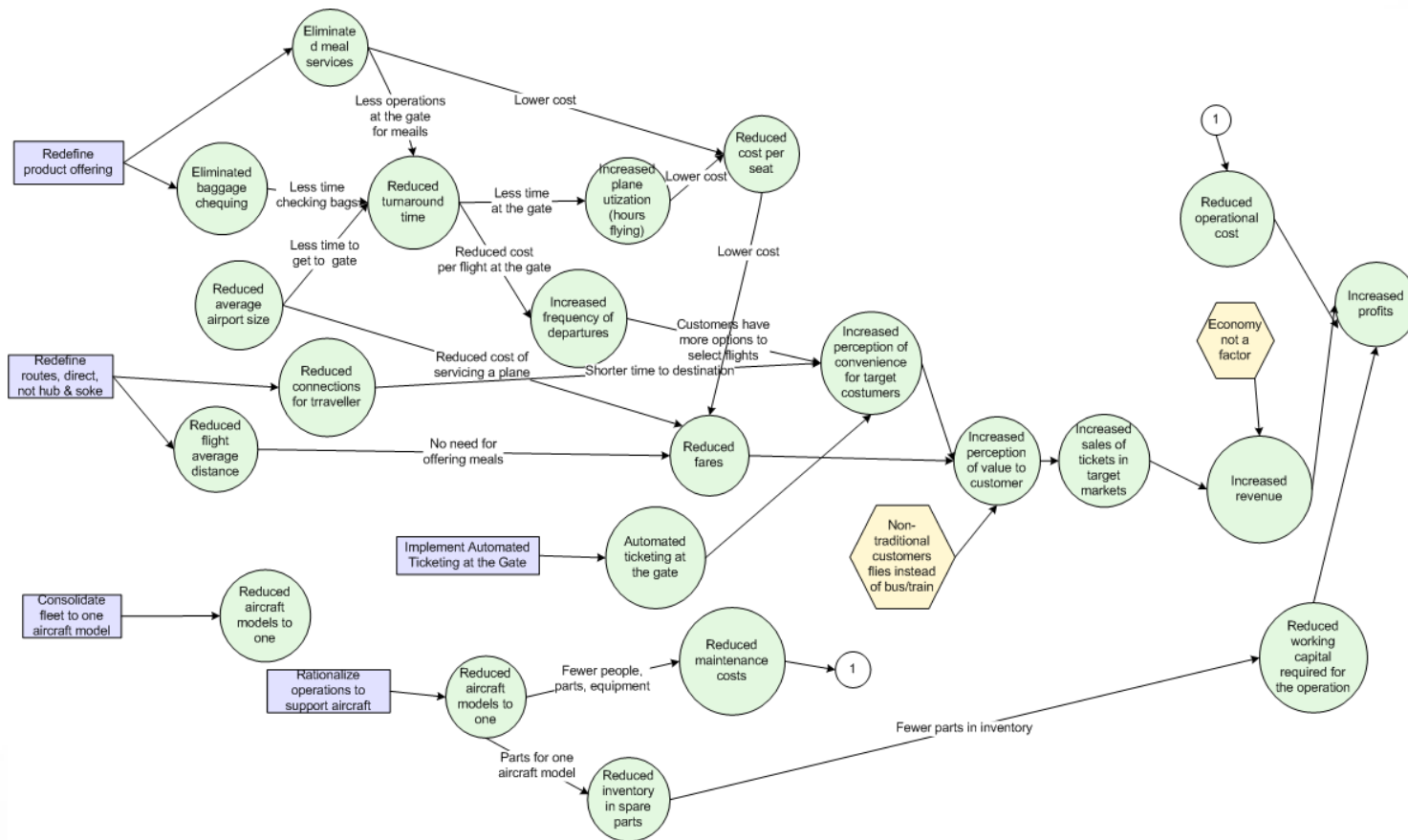
# Incremental Improvement of the Current Business

- Conditions in this scenario
  - Stable environment
  - Causality relationships are linear
  - Investments are mostly independent
  - Prioritizing a list makes sense



# Transformational Scenario

A simple example of what it looks like

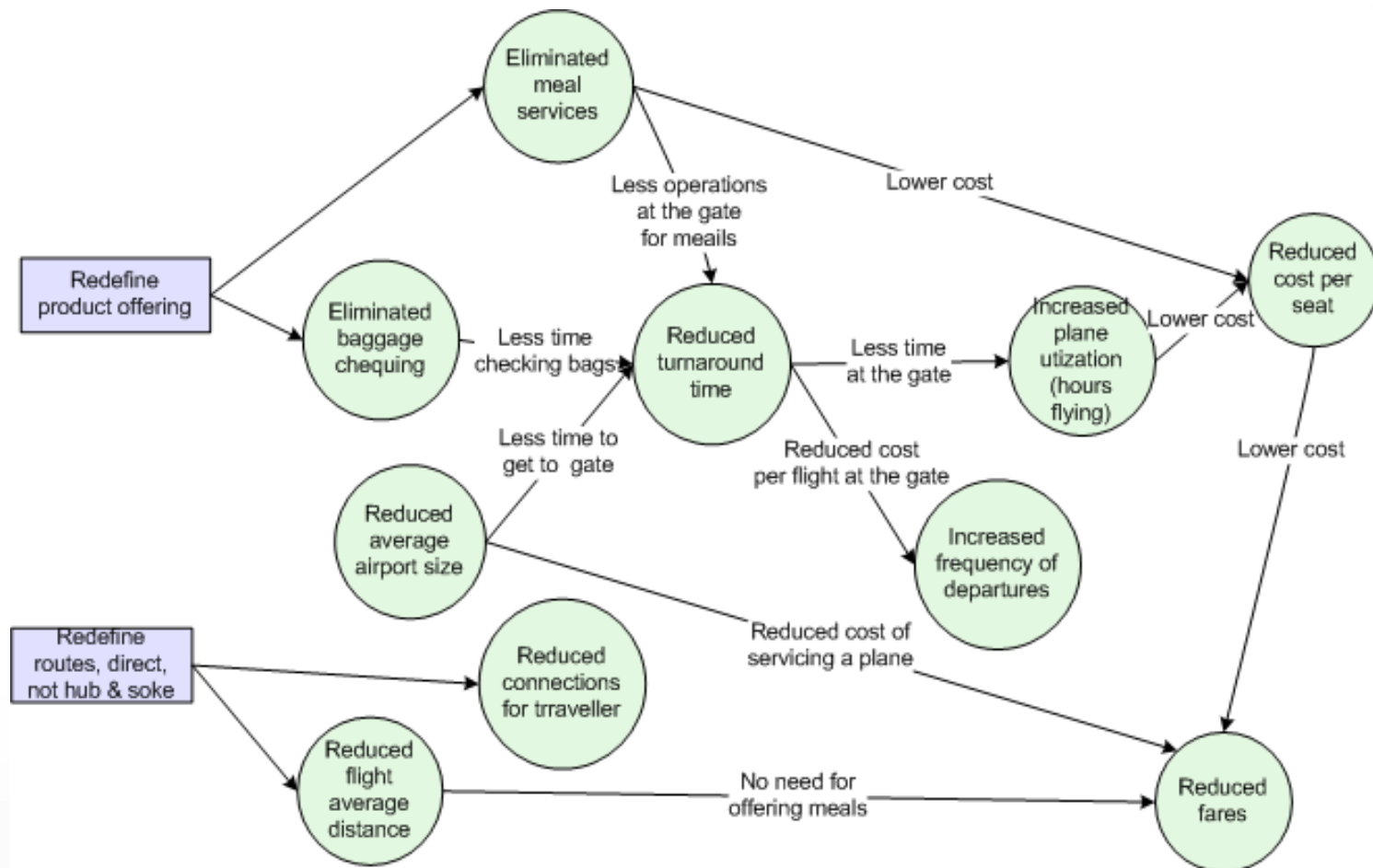


Based on Porter's case study on Southwest Airlines

What Is strategy?  
Michael Porter  
Harvard Business Review 1996

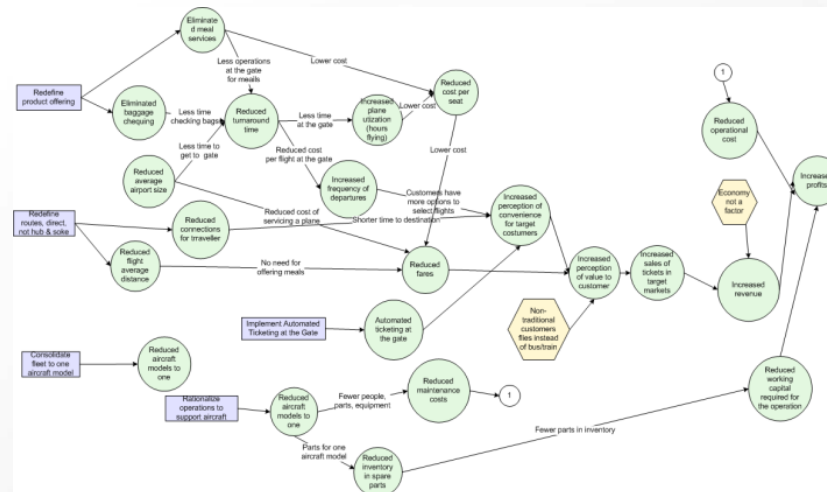
# Transformational Scenario

A closer view at the example



# Transformational Scenario

- Conditions in this scenario
  - Causality relationships are many to many
  - Investments are not independent
    - Benefits cannot be easily attributed
  - All investments are needed to implement the strategy
  - Prioritizing a list doesn't make sense



# Proposed Approach for a Transformational Scenario

- Map causality relationships between outcomes, capabilities and initiatives using a Results Chain
- Use a top down business case approach
  - Start with expected financial results to generate a stream of inflows
  - Propagate the inflows based on contributions
  - Estimate outflows for initiatives as usual, and then propagate the outflows in a similar way
  - Business case can be assessed at any node in the Results Chain

# Proposed Approach for a Transformational Scenario

- Use a multi-year plan, not a yearly selection of projects
- Executives prioritize business outcomes, not projects or capabilities
- If business outcomes are needed for the strategy, the question is when can we do them, not which ones to chose
- Incremental investments not related to the strategy are selected and funded separately

# Proposed Approach for a Transformational Scenario

Generation of inflows: plan VS current

Planned Values	Total	2011	2012	2013	2014	2015
Sales	\$ 2,737,400	\$ 500,000	\$ 450,000	\$ 540,000	\$ 594,000	\$ 653,400
Variable cost		72%	70%	68%	67%	66%
Fixed cost		36%	34%	32%	31%	30%
Combined Operating Ratio		108%	104%	100%	98%	96%
Return from operations	\$ (19,984)	\$ (40,000)	\$ (18,000)	\$ 0	\$ 11,880	\$ 26,136

Current values/trend	Total	2011	2012	2013	2014	2015
Sales	\$ 2,401,980	\$ 500,000	\$ 490,000	\$ 480,200	\$ 470,596	\$ 461,184
Variable cost		72%	72%	73%	73%	73%
Fixed cost		36%	36%	37%	37%	37%
Combined Operating Ratio		108%	109%	109%	110%	110%
Return from operations	\$ (215,693)	\$ (40,000)	\$ (41,650)	\$ (43,218)	\$ (44,707)	\$ (46,118)

Inflows from business results	\$ 195,709	\$ -	\$ 23,650	\$ 43,218	\$ 56,587	\$ 72,254
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Planned Values

Difference generates a Stream of Inflows

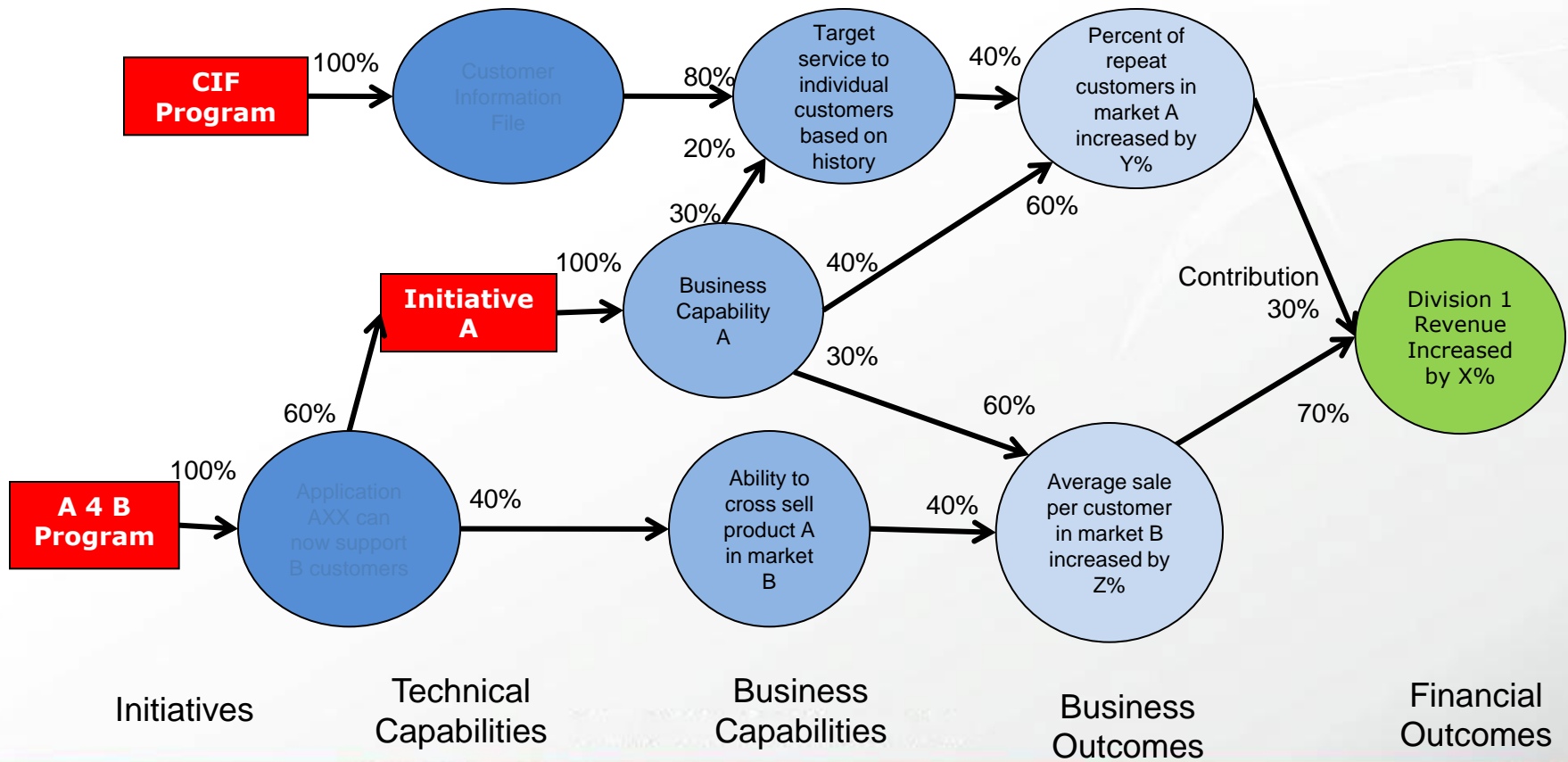
Current Trend

Inflows



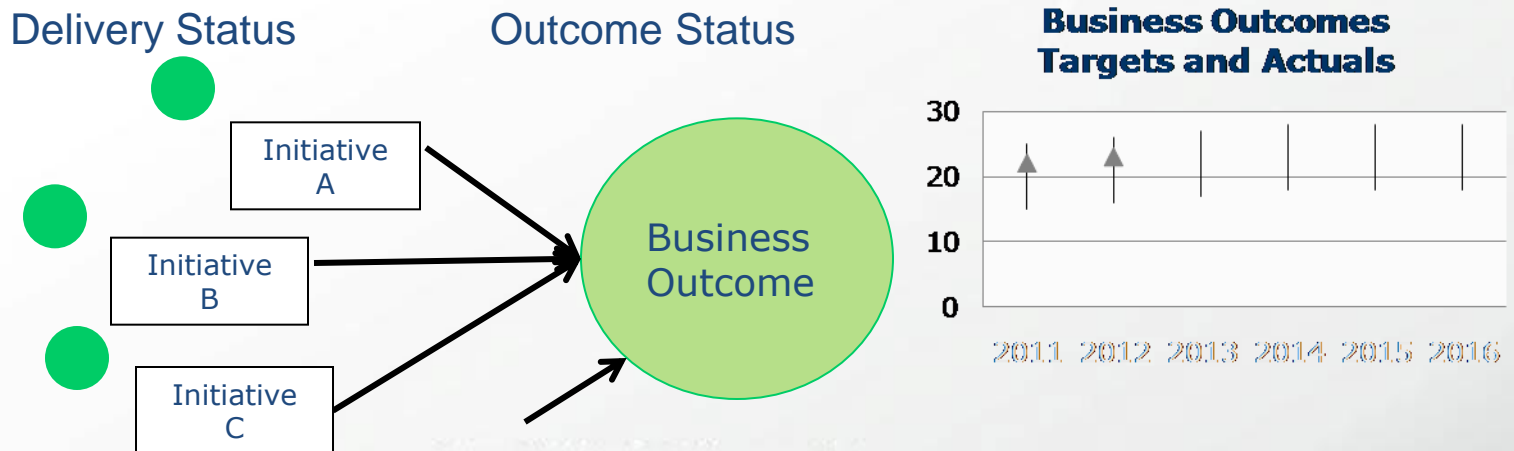
# Proposed Approach for a Transformational Scenario

Propagation of inflows and outflows  
based on contributions



# Proposed Approach for a Transformational Scenario

- Contributions are defined:
  - Initially through expert judgment, with basic rules to ensure consistency
  - Causality relationships are verified when there is consistency between delivery and results



# Benefits Management in a Transformational Scenario

- With this approach, benefits management merges with performance management



Success in  
Delivery



Success in  
Implementing  
Strategy



Success in  
achieving  
business goals

Initiative

Business  
Outcome

Financial  
Outcome

# Conclusion

- The traditional approach to portfolio management doesn't work in every situation
- The alternative approach for transformational scenarios integrates portfolio management, strategy implementation and benefits management
- The main difference: they all get done!

# Learning Objectives



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