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Building for Portfolio Success: Create a Structure That Delivers

Today's organizations are subjected to constant pressure to change. In this environment, they can't just work to succeed—they must be built to succeed.

Andy Jordan
CA Project & Portfolio Management

The old adage says that the only constant is change—that's truer today than it's ever been. Change is driven by the actions of an ever more competitive operating environment, by the demands of customers who expect more value, more often, and by technological innovation that continuously redefines what is possible. Sustainable success requires organizations to optimize for the delivery of strategic value, and that can't be achieved simply by executing effective portfolios; they must develop an infrastructure that makes portfolio success an integral part of what they are.

Organizations grow by delivering on relevant and meaningful goals and objectives. Leadership is accountable for defining strategy and setting those goals, but the organization as a whole must combine to execute on that strategy. Increasingly in the last decade, that has occurred through portfolio management—a consolidated approach to managing all of the initiatives required to achieve the corporate goals. The results organizations have achieved with portfolio management has been variable at best—leading organizations have seen significant improvements in performance; strugglers have created an additional layer of administration. But regardless of what has happened to this point, one thing is certain: Effective portfolio management is crucial for organizations to continue to succeed. That's where the organizational infrastructure comes in—building an enterprise around effective portfolio delivery.

Elements of a Portfolio Success Infrastructure

The infrastructure required for portfolio success isn't a physical or technology one. Rather, it is a set of philosophies and approaches that are integral to not just what the organization does, but what it is. They are the core of the way the organization operates and performs and, over time, will become part of the organizational culture. There are a number of elements to this infrastructure, each of which we will look at in more detail in this paper:

- **Strategic accountability:** the fundamental ownership of strategy creation and delivery
- **Alignment with vision:** consistency between short-term goals, long-term vision and everything in between
- **Modern business management:** the combination of a number of adaptive business approaches required in the modern world
- **Optimized portfolio delivery:** the individuals and groups that make up the portfolio environment

To achieve a sustainable portfolio success infrastructure, organizations must invest in the development of each of these disciplines and must then continue to invest in maintaining and evolving them. This level of investment will generate significant returns in improvements in both overall portfolio performance and the consistency of that performance. A failure to commit to any one of these elements will jeopardize that return.

Single Source Strategic Accountability

It is well understood that accountability for organizational strategy lies with the executive team, and ultimately the CEO. However, in reality there are elements of strategy where the executives abdicate that accountability. The executive team is comfortable establishing organizational strategy and setting the goals and objectives for the next period, and they'll also expect to approve the key initiatives that will be the core of the portfolio designed to deliver those objectives. However, once that handful of major, transformative projects are in place, many executive teams begin to take a back seat when it comes to strategy.

While the major projects represent the game changers that are the obvious areas of focus for organizations, every investment dollar is created equal. Success is ultimately measured in terms of return on the complete investment portfolio, and that means executives must be accountable for all investment choices. The concept of delegating responsibility for those investments to department heads of functional areas is fine, but in many organizations the accountability is not retained by the executive team, and that's where problems start.

Unless there is active control of how the strategic investment budget is allocated and spent, there will be a dilution of strategic value from those investments. With the best of intentions, departments will focus on the problems and opportunities identified within their operational areas, and those will rarely optimize value for the enterprise as a whole. Take IT as an example, although similar scenarios arise in all areas. IT support functions are made aware of system limitations or challenges through help desk tickets and similar items, not all of which can be completely resolved by working with end users. As a result, a number of project proposals are developed from those support tickets, and when IT has access to portfolio funds, those projects are approved and executed. This likely results in a more efficient IT infrastructure, and maybe even greater end user or customer satisfaction, but it's not best use of the investment funds.

The first problem is that these departmental initiatives tend to focus on challenge resolution, which more often than not benefits cost reduction either directly or indirectly. Long-term organizational success can be sustained not through focusing on expenses, but on innovation. There are limited gains to be achieved from focusing on the cost side of the ledger, but focusing on the benefits to be achieved through innovation presents limitless opportunities. The second issue is that departmental decision making has too narrow a focus. With limited funds available for investment, it is important that every single dollar is invested with a focus on the potential gains for the entire organization, not just individual departments, and that can only come when leadership retains accountability—and applies it to all investments.

Alignment With Vision

Portfolio management is necessarily concerned with the next financial planning period. While planning activities have shifted to a shorter cycle, with quarterly planning now the norm and monthly adjustments becoming commonplace, goals and objectives still tend to be set on an annual basis. This is acceptable; investment budgets are established based on the organization's financial cycle, and that is still built around annual reporting and accounting requirements. However, portfolio management must have both a shorter and longer perspective than simply that one-year investment planning snapshot.

The shorter focus has been much discussed as planning has become more adaptive and plans evolve throughout the delivery window, but longer-term focus has received less attention. Organizations must have long-term strategic vision—where they want to be in five years or so. They must also ensure they have strategic roadmaps to help them achieve that vision: product and service roadmaps, infrastructure roadmaps, people roadmaps, etc. The importance of roadmaps has recently been noted by Gartner: "Technology innovation leaders must create roadmaps that communicate strategy and inform better decisions for business and IT. These roadmaps must have the right granularity and planning horizon and must connect strategy with implementation to ensure that desired outcomes are achieved."[1] The long-term vision (and the roadmaps to support it) is what helps ensure the organization remains focused on the right priorities when executing on the necessary adaptive planning to deliver short-term goals. It is also what portfolio management must align with.

The portfolio is viewed in annual slices, but in reality it is an ongoing entity that has no distinct completion date. Projects and programs cross planning windows, benefits enabled in one year deliver benefits in multiple future years, etc. While not every project within the portfolio must make a visible contribution to the long-term vision, there must be meaningful progress toward that vision, through the execution of roadmap steps, in each portfolio period. Portfolio management must balance the need for progress against short-term goals and objectives with progress against the vision and along the roadmaps, identifying where imbalances occur and ensuring that the executive team consciously confirms such imbalances or adjusts the investment mix to address the variance.

To achieve this, portfolio management must be actively engaged in all elements of organizational growth. Over time the enterprise vision will evolve, and portfolio management must understand that evolution and the impact it has on more immediate work. Similarly, portfolio management must be involved in the development of roadmaps and the adjustments made to them over time. The portfolio has a close relationship with roadmaps, in particular individual and integrated product roadmaps. Immediate portfolio investments contribute to near-term roadmap goals and act as enablers for medium-term goals. Investment planning also focuses on those medium-term goals and ensures alignment is retained with the more speculative and long-term roadmap targets.

Modern Business Management

Successful strategic execution only happens through successful project execution. Projects and programs are the units of delivery for all strategy elements, and it is crucial to ensure those projects are as effective and efficient as possible. That means selecting the right project delivery approach: traditional, hybrid or agile. It also means identifying the need for adjustments to projects as early as possible and implementing those changes with minimal disruption.

These two elements must combine to form a modern approach to business management that prioritizes performance over benefits and creates an environment that enables that priority. The first element of modern business management is the concept of business agility. This requires the leadership team to monitor the external operating environment the organization interacts with in order to identify threats and opportunities that require action. Understanding how the environment is evolving due to the actions of competitors or suppliers, demands of customers and technological innovation allows the organization to identify when it must adjust or pivot as quickly and effectively as possible. The ultimate goal for business agility is to be able to predict such evolution before it occurs so the organization can proactively shift and position itself ahead of both the competition and emerging trends.

The second element of modern business management is the actual implementation of such changes. Projects must be envisaged and executed in ways that combine a focus on benefit attainment with the ability to adjust with virtually no disruption when that focus requires changes within the project. That in turn requires the right project delivery approach, a cohesive and collaborative team environment that can adapt to change, and a commitment to constantly focus on optimal business performance.

Portfolio management must connect these two aspects of modern business management, creating an effective end-to-end communications and management channel that connects the management of the external environment with the delivery of projects. To achieve that requires an integrated project management office or PMO structure, and we'll look at that as part of the final category.

Optimized Portfolio Delivery

With limited investment dollars available, it is critical to ensure that as close to 100 percent of the investment budget as possible generates an acceptable return. That is increasingly difficult in an environment that is constantly shifting, which is why optimized portfolio delivery is more important than ever. Portfolio delivery must identify all the different changes that occur within the portfolio as a result of a shifting environment, problems in execution, variances in benefits attainment, etc., and maintain the ability for the work in progress to achieve all of the current goals while still supporting the long-term vision.

That will only succeed when all of the elements within the portfolio delivery process are aligned. At the heart of the process are the various PMOs that connect leadership with projects. Effective portfolio delivery organizations will have a strategic PMO that acts as the home of portfolio management, and that will connect with all of the departmental and specialist PMOs throughout the organization. Those satellite PMOs act as the direct connection to the project teams in their business areas, providing direct support and guidance based on the existing relationships they have, but always within the context of the overall portfolio. As Forrester notes, "PMOs have moved beyond project management oversight to become strategic portfolio management offices. Instead of focusing on tactical project reporting, they focus on facilitating portfolio prioritization, portfolio performance analysis, and managing dependencies on key shared resources."[2]

This network of connected PMOs serves as the management structure for optimized portfolio delivery, providing portfolio management with support without the need for direct portfolio management engagement in every project, in every business area. That in turn allows portfolio management to focus on the relationship with organizational leadership, where the key decisions and strategic adjustments are made. We said at the outset that the portfolio delivery infrastructure was focused on philosophies and approaches, and this is why the relationship between portfolio management and leadership is so critical. Portfolio management must be the execution arm of leadership's strategic accountability, and that execution can only be optimally aligned when the relationship between portfolio management and leadership is as close as it can possibly be.

Building the Infrastructure

While most of the "building" involved in the creation of a portfolio success infrastructure is actually focused on philosophy, there are a number of tangible changes that most organizations need to make. Most critical is to create a meaningful investment in single source accountability for strategy. The cleanest and most effective way to do that is to create a chief strategy officer (CSO) position within the leadership team. While the CEO will retain ultimate accountability, the CSO is the face of strategy. The role demonstrates a meaningful commitment to effective strategy delivery and is accountable for not just creating the strategy and objectives by which it will be measured, but also for the entire strategy infrastructure.

The strategic PMO or similar function that contains portfolio management should report to the CSO, with portfolio management forming a major part of the CSO's daily function. This is not an uncommon practice today. Forrester again: "95 percent of large organizations have a PMO, and the average age of these PMOs has increased to five years. More importantly, 49 percent of PMOs report to the C-level, focusing on strategic planning, governance, and portfolio management."[3] The CSO is also the primary owner of business agility activities, working with other members of the leadership team to ensure the entire operating environment is being monitored continuously and impacts are being assessed effectively. The CSO will also work with product management, technology, operations and HR to ensure there are effective, actively managed roadmaps in place to deliver the enterprise vision. Most important of all, the CSO will also work with the organization's finance arm to ensure the roadmaps are funded effectively.

A portfolio success infrastructure also requires an investment in a strategic project portfolio management (PPM) software solution. Much as portfolio management becomes the core element of strategy execution, so the PPM platform becomes the core system for tracking and supporting that execution. Best-in-class PPM solutions include investment management, portfolio modeling and roadmap functionality to support all of the work that goes into developing the optimal portfolio. To support management of the portfolio, they contain powerful reporting engines and allow integrations to business intelligence (BI) platforms for complex analytics and powerful information management. Of course, they also support automation, collaboration and data capture to integrate with project level tools regardless of the delivery method that is being used. This last piece is critical—a top-down PPM solution (the only type capable of supporting a portfolio success infrastructure) cannot restrict project delivery by only supporting certain project delivery approaches.

Building a portfolio success infrastructure is not a simple undertaking. It requires an investment in all areas of project delivery and involves a fundamental rethinking of strategy execution from planning to delivery, redefining accountability in the process. However, at the same time, it builds on the existing project execution, portfolio management and strategic planning concepts that are already in place, aligning them all for improved performance. It addresses the frustrations many organizations are feeling from the inability to consistently execute on their strategy, and it optimizes the ability to generate the best possible return on limited strategic investments. It is, quite simply, the best way to optimize strategic execution—and that's what every organization needs.

About the Author

Andy Jordan is president of Roffensian Consulting S.A., a consulting firm with a strong emphasis on organizational transformation, portfolio management and PMOs. He has a track record of success managing business-critical projects, programs and portfolios in Europe and North America in industries as diverse as investment banking, software development, call centers, telecommunications and corporate education.

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