

Corporate Portfolio Management

Introduction

In 1902 Rudyard Kipling wrote the “Just So Stories”, a series of stories that explain how, by some highly amazing interventions, many animals were transformed from their original form into what we see today. In one story, “The Elephant’s Child”, Kipling includes a short poem that contains four lines that impart as sound a bit of advice as you are ever likely to get:

I keep six honest serving-men:
(They taught me all I knew)
Their names are What and Where and When
And How and Why and Who.

The ‘characters’ Kipling identifies as his ‘serving-men’ can be seen again in the Zachman Framework for Enterprise Architecture, named after its inventor, John Zachman, and developed in the 1980’s when he was at IBM. The same six questions form the basic toolset for any good investigative journalist.

In looking at the value of adopting a Corporate Portfolio Management (CPM) approach Catalyze has chosen to ask the same questions so as to be certain you have the answers you need to see how CPM can transform your organisation.

What

Corporate Portfolio Management looks at the whole organisation building up from a chosen level, i.e. function, department, division, etc. to make decisions on resource allocation to achieve strategic objectives. Too often individuals and groups can become overly focussed on their own area or challenge and fail to see it in the context of the whole organisation.

Much management time is devoted to ‘doing things right’: CPM comes a step before that, and is focused on ‘doing the right thing’.

Why

Unless this corporate, organisation-wide view is taken, and understood, a less than optimum use of investment resources will be achieved. Experience also shows that by adopting a CPM approach there is an opportunity to involve a wider audience and with this involvement comes increased commitment and alignment.

For example, how can we know if a \$ invested in one project or programme represents good value compared to a \$ invested elsewhere in the business? If one division never has sight of another then this question cannot be addressed, and adopting the discipline of CPM may be the only way to quantify this.

When

Constantly! While a full portfolio review may take place on an annual basis or as part of a regular planning cycle, the real need is to be continually reviewing how successful investments are delivering on expectations.

How

Corporate Portfolio Management begins with a clear, unambiguous strategic intent by beginning to answer the following questions:

- What is the business about?
- Why this strategic approach matters?
- Where the organisation wants to be 3 / 5 /10 years from now?

The “how” of CPM is the implementation of the corporate strategy. As Jack Welch said in his book *‘Winning’*, “Look, what is strategy but resource allocation? When you strip away all the noise, that’s what it comes down to. Strategy means making clear-cut choices about how to compete.”

CPM ensures that the projects and activities across the corporation are aligned to the strategy; resources are allocated to achieve greatest impact, and the expected outcomes clearly defined and understood.

Strategy

A clear strategy sets direction for the whole organisation and sets the tone for a good dialogue. Whilst perhaps not an inherent part of a typical CPM process it is important to begin by examining the strategy of the organisation. Is the strategy fit for purpose? How does it reflect market conditions? How well articulated and understood is the strategy across the organisation? Is it clear enough to support key operational decisions? This initial review and challenge to the strategy is a key foundation to developing openness and collaboration within the team, and to adopting a successful Portfolio Management approach.

Once this initial strategy review is done a clear statement of strategic intent can be published. For example, a specific strategy could be presented as four main foci of strategic intent:

- Grow current core business
- New Product Development
- Penetrate new markets
- Improve overall margin

Obviously behind these broad statements will sit specific measurable objectives detailing financial goals, internal and external opportunities and constraints, as well as risks.

However, this 'top down' view; sets the direction and helps everyone see the bigger picture as well as the role they can play in creating it. As each part of the organisation begins to develop strategic options a series of questions can be asked, i.e. how specifically does this grow core business? What specifically does this do for new product development?

From a CPM perspective this provides a high level context for the decision making process and provides guidance to the organisation on the kind of projects/activities that will be valued. It also opens the discussion on what is currently being done that no longer adds the value it once did.

Process

Now the 'bottom up' activity begins.

With clear guidance from the leadership, individuals, groups, departments and divisions can examine their activities and show initiative and innovation, looking afresh at what they do: challenging current activities and developing options for the future. The strategy helps shape the themes by which individuals and workgroups can begin to develop investment and implementation options that will become the input to the prioritization process.

From here the CPM process of evaluation; ranking and weighting against the strategic intent will arrive at a prioritised corporate portfolio with delivery through defined individual business plans.

Catalyze Differentiation

The CPM process as described so far might be perceived to be a fairly “mechanical” process, but from a Catalyze perspective nothing could be further from the truth.

By involving the whole organisation in option development, an energy is created that drives the process forward. The process creates an environment where everyone is encouraged to look at what they do today, how they do it and could it be done better – indeed would it be better to stop what is being done to enable something different to happen.

Group workshops or ‘decision conferences’ are held at various levels as these ideas and options are explored and the priorities determined. This culminates in a final decision conference at the leadership team or Board level to draw all of the component parts together and review strategically. The dynamics of these workshops play an important and valuable role in gaining insight, commitment and alignment as the value and contribution of each option is examined and debated. It is through this social process that increased insights are gained at all levels of what is truly valued and what is driving resource allocation.

Where

To achieve a truly organisational wide prioritisation of resources the obvious answer to this question is undoubtedly everywhere. However, the question deserves a bigger answer. Clearly the process needs to be highly visible creating an environment that allows for open face-to-face discussion and debate at each level. This not only supports the ethos of involvement but creates the transparency that underpins trust in the decision and commitment to the outcomes.

Who

This may be the most important aspect of the process and certainly is core to establishing credibility. The Catalyze implementation of CPM instils the need for a top down and bottom up approach and therefore it is essential to demonstrate commitment from senior management while providing encouragement and allocating sufficient time to all participants to deliver their best ideas and inputs. In its widest application CPM looks to involve all stakeholders and certainly there are instances where the organisation’s customer or end-user has taken an influential part in the decision-making process.

Typically this is manifested by a clear strategy from the top and communication that encourages good ideas from the frontline. Beyond that there is a need to ensure the process ‘closes the loop’ and that decisions made are clearly communicated, selected programmes and projects well managed and benefit realisation monitored and reviewed.

Conclusion

Corporate Portfolio Management delivers enormous benefits on many fronts including the creation of an environment that encourages involvement, and through this, alignment and commitment. We should therefore not lose sight of the intangible gains to be made from implementing strong resource management. Catalyze's experience of applying our own brand of CPM also bears out research from the London School of Economics, which shows that by re-aligning the organisation's resources to the strategic intent, an average gain in benefits of more than 30% is achieved; in the largest corporations this has often been more than \$1billion of NPV.

Well executed Corporate Portfolio Management can make the difference between market leadership and simply surviving, or worse, and that may well be particularly true in the current economic environment.

If you require further information on Catalyze's approach to Corporate Portfolio Management or wish to discuss any aspects of this document further please contact us.