Strategic Portfolio Management

Ken Hanley, M. Eng, Project Management
Mike Benson, PMP
Lisa Olund, PMP

K | T | H

PROJECT AND PROGRAM MANAGEMENT
Premise 1

No, it's not enough to just manage projects well. It's critical that they be managed effectively within a Strategic Project Portfolio - a living, breathing program of projects that changes quickly and effectively in response to changes in the environment.
Premise 2

Yes, effective portfolio management is as critical as effective project management – no one will thank you for doing the wrong projects well…
Premise 3

Yes, portfolio management demands some basic project planning skills – walk before you run…
Premise 4

No, you don’t want your executive making decisions this way…
"Then it's official. The Hell no's have it."
And that’s why we’re here...
Who the hell are these guys, and what does they know?

Ken
- Often introduced as the designated ‘Project SOB’
- Battle scarred veteran, specializing in IT and energy
- International program and project management experience – Europe, USA, New Zealand
- Teaches and lectures on PM best practices at University of Calgary, University of Alberta, Queens etc.
- Writes on technology and PM (the IT Guerrilla in ComputerWorld Canada)
- Martini please, dry, neat with a twist…

Mike and Lisa
Strategic Portfolio Management Demands:

1. An explicit *line of sight* between all the projects in the portfolio and the strategic intent of the hosting organization

2. **Active engagement** of the executives who will be directly and visibly responsible for the composition of the portfolio

3. An ability to **clearly communicate how the portfolio is put together**, and how it is managed on an ongoing basis

4. An ability to **make tradeoffs between projects and their priorities**
Strategic portfolio management demands:

A little bit of project planning discipline
Strategic portfolio management demands:

1. An explicit line of sight between all the projects in the portfolio and the strategic intent of the hosting organization.
The line of sight must be:

- Direct
- Unambiguous
- Clearly Understood
- Linked to Strategic Intent of the Organization
The line of sight must be **Direct**

- In order for us to **successfully hit our revenue target** in this market segment, this project **must** be completed **by this date**, and **deliver this benefit**, for no more than **this cost**.
The line of sight must be **Unambiguous**

Ever had a “successfully completed” project – on time, on budget, and everything in scope was achieved……and yet people are upset because the project didn’t deliver what they thought it was supposed to deliver?
The line of sight must be Clearly Understood

- By doing this project – these areas are going to be affected either negatively or positively
  - **Productivity** – Reduce my head count
  - **Revenue** – Book these numbers
  - **Cost Savings** – Reduce my operating budget
- Can everyone who needs to know about this project see its objectives, its timelines, its costs (resources), and its priority to the organization?
- How many #1 priority projects does your company have?
- Are all resource conflicts resolved quickly and efficiently in your organization?
Line of sight: Don’t Forget the “It’s all about me” Factor...
The line of sight must be Linked to Strategic Intent

- The “Strategic intent of the hosting organization” is reflected in its specific business goals and objectives:

  - We will increase our market share in this market segment by $10,000,000
  - We will reduce our Time To Respond (TTR) to Priority 1 calls by 5 minutes
Lack of a Line of Sight: Here’s how not to set up a Portfolio

- Big merger in New Zealand
- Target: take out $320 million in costs annually
- 78 projects in the merger portfolio, estimated costs to complete approx. $130 million
- Initial thinking: “Let’s assign our best IT Manager to manage the IT projects, our best Process Manager to manage the Process Projects, our best HR Manager to manage the HR projects…”
Here’s what they got...

| Portfolio 1: 26 IT projects | Portfolio 2: 22 Process projects | Portfolio 3: 14 HR projects | Portfolio 4: 16 Finance/Accounting projects |
The CEO’s questions:

- Right then: How many $ savings can I expect from the 26 IT projects?
- How many $ savings can I expect from the 22 Process projects?
- How many $ savings can I expect from the 14 HR projects?
- How many $ savings can I expect from the 16 Finance Accounting projects?
- 78 projects? The answers better add up to at least $320 million….
Answers from each of the Portfolio Managers…

- The projects that I’m responsible for, in and of themselves, will deliver savings of……..$0
The CEO asked me (after a suitable period of ranting…)

➢ So what do we %$#^&% do now?
I suggested that they....

- Organize your portfolios by **strategic thrust** and **desired benefits**, not by function...
Here’s how and where they really got the savings…

- A related group of 17 projects crossing 4 functional areas
- A related group of 13 projects crossing three functional areas
- A related group of 15 projects crossing four functional areas
- A related group of 11 projects crossing three functional areas
- A related group of 12 projects crossing four functional areas

26 IT projects
22 Process projects
14 HR projects
16 Finance/Accounting projects
Notice that the total number of projects...

- dropped to 68
- Identified 10 ‘orphan’ projects that didn’t tie into a strategic thrust...
So we organized the Portfolios by Strategic Intent...

A related group of 17 projects crossing 4 functional areas

A related group of 13 projects crossing three functional areas

A related group of 15 projects crossing four functional areas

A related group of 11 projects crossing three functional areas

A related group of 12 projects crossing four functional areas
Eliminated the 10 Orphans

- as bad as that sounds
- Reduced program budget by about $20 million (now totals $110 million) by canceling 10...
- ...and asked the question again: “Where are the $320 million in annual savings going to come from?”
Here’s where we save $320 million annually...

A related group of 17 projects crossing 4 functional areas
$80 million savings annually

A related group of 13 projects crossing three functional areas
$55 million savings annually

A related group of 15 projects crossing four functional areas
$60 million savings annually

A related group of 11 projects crossing three functional areas
$70 million savings annually

A related group of 12 projects crossing four functional areas
$55 million savings annually
Strategic portfolio management demands:

2. Active engagement of the executives who will be directly and visibly responsible for the composition of the portfolio.
Active Engagement includes:

- Understanding of roles
- The right sponsor
- Right amount of information at the right time
- Clarity
- Active engagement
- Disclosure of outcomes publicly
Do Management Understand their Role?

- Warning sign: “I don’t need any project management training, it’s our PMs who need the training…”

- In fact:
IT IS HARD WALKIN' ON THIS STUFF.

YEP, SON, WE HAVE MET THE ENEMY AND HE IS US.
Question: Do you have the right sponsor for each project in the portfolio to speak for projects as they arise?

- Is this project on their performance review?
- Do you have one ‘who’ at the table who can speak on behalf of the rest of the organization?
- Watch out when you hear: “Their project”, “The IT project”, or “That project”
The Right Amount of Information: Minimum for inclusion in the Portfolio

- Three Key Questions:
  - Done
  - Won
  - Who
- Priority Triangle
- Target performance
- Target duration/schedule
- Target budget
The Right Amount of Information

- Never start with a complete answer
  - ‘Cast in concrete’ doesn’t invite input

- Never start with a blank page
  - You want to see frustrated executives going in circles?

- Try a draft on a sheet

- Seed incorrect assumptions in an effort to draw input
Clarity

- Are you making the decision they need to make clear? Have you made clear the decision implies?
  - If you **add this** project to the portfolio, you have to **remove** one of **these projects** from the portfolio
  - If you **want to add** a ‘net new’ project when all resources are currently allocated to other projects, here’s **how much additional resources will cost**
Active engagement of the executives: Disclose the Outcomes Publicly

- Reminder: here’s what in the portfolio, and here’s what’s not in the portfolio
- Here’s what’s changed from the previous portfolio, and here’s why
Disclose Outcomes Publicly

- Don’t forget to continue to show the ‘below the line’ initiatives
  - If they’re not shown, they’ll keep coming back as ‘new’ projects for consideration, and the analysis work done to date may need to be repeated
  - People who suggest these projects don’t like to feel that they’re forgotten…
Strategic portfolio management demands:

3. An ability to clearly communicate how the portfolio is put together, and how it's managed on an ongoing basis
Putting the Portfolio Together

- Takes Foundation Planning
- 12 Rules of Engagement
Foundation Planning Principles…

- First, take on the **right initiatives** given limited resources
- The first step in taking on the **right initiatives** is putting a disciplined **Project Prioritization and Selection Process** in place
Rule 1: Don’t Call it Project ‘Justification’

- It should be an unemotional, objective, transparent, repeatable process of project prioritization and selection (and reselection, and reselection)

- ‘Justification’ and ‘selection’: It’s like the difference between a ‘PMO’ and a ‘Project Performance Centre’
Rule 2: Make it a Transparent Process

Develop the process to ensure consistent factors are adopted. This may include:

1. Timing – When are decisions made?
2. Decision Style – How is consensus achieved?
3. Determine Decision makers – Who is involved in making the decision?
4. Decision Criteria – What is needed to make the decision?

Communicate the process!
Rule 3: Always Manage as Part of a Larger Portfolio

- It’s always risk vs. reward…
- Even projects that ‘make sense’ in and of themselves might not make sense in the broader portfolio
- Resource constraints might disallow certain projects
- Resources are finite and not usually interchangeable (which is why most PM software tools have…limitations)
Rule 4: Never be Emotional About a Project

- Columbo proposes projects…
- Never ‘my’ project, never IT’s project….bad sign: your/that/their…
- Which leads to Rule 5…
Rule 5: Be as ready to recommend a ‘No’ as to recommend a ‘Go’

- Be someone who is known as a person who makes good business decisions rather than an advocate on the basis of ‘irrational enthusiasm’

- Which leads to Rule 6…
Rule 6: Never Attach your ‘Name’ to a Potential Project

- It may be ‘our’ project in the corporate sense, but it is never ‘their project’ or ‘IT’s project’
Rule 7: Be Conservative

- What if project benefits are half what we forecast? What if costs are twice as high? What if the schedule doubles? Does it still make sense?
- Remember the Hanley truism: ‘Likely’ is pretty bloody unlikely.....
Rule 8: You must Explicitly Show Risk and Uncertainty

- Tell ‘em what you don’t know
- Use three point estimates on all project proposals
- Base your forecast on what’s happened in the past…
- They don’t listen to the ‘only ifs’? Use explicit estimate classes
Rule 9: Don’t Talk about ‘How’, Talk about ‘What’

- Stupid project names….
- Does the project name speak to the desired result, in terms the project approvers (and everyone else) understands?
- The best project names are long, awkward, and completely unacronymable
Rule 10: Know the Game – is it Numeric or Non-Numeric Analysis?

- Write it down!
- Why we do it leads to how we measure it in execution…
- Here’s where we get into the mechanics, as advertised…
- Be brave enough to ask
Like Columbo...
Rule 11: Whatever Model You Use to Select a Project, it Must Reflect

- Realism
- Capability
- Flexibility
- Ease of Use
- Cost
Keep in Mind...

- Models do not select projects, people do
- Models are only partial representations of the reality they are meant to reflect
- Regardless of model, the portfolio will need continuous monitoring
Nonnumeric Models

- Sacred Cow
- Operating Necessity
- Competitive Necessity
- Product Line Extension
- Comparative Benefit
By the Numbers? Bottom line: Two Options

- Increase revenue or
- Decrease cost
Cost Benefit Analysis

Includes:

- Benefit/Cost Ratio
- Payback Period
- Average Rate of Return
- Discounted Cash Flow
- Internal Rate of Return
- Net Present Value
Numeric Models – Benefit/Cost Ratio

Simply put, is the financial value of the benefit divided by the financial cost.

To do this, the organization should establish the criteria for evaluating a project.

For example: Company A might have a Benefit/Cost Ratio of 1.5 or greater, while Company B might make a decision to go ahead with a project with a Benefit/Cost Ratio of 1.0.
Numeric Models – Payback Period

Evaluates investment opportunities and product development projects on the basis of the time taken to recoup the investment.

Quite simply…
Payback period (in years) = Initial capital investment divided by annual cash flow from investment

An organization would have to define what the payback criteria would be. Some may be happy with 3 years, while others may accept 2 years
Numeric Models – Benefit/Cost Ration & Payback Period

Both these approaches have a common weakness:

They do not take into consideration the time value of money. As a result they are typically used on only relatively short term projects.
Numeric Models – Average Rate of Return

Determines return on investment by totalling the cash flows over the years for which the money was invested, and dividing that amount by the number of years.
Numeric Models – Average Rate of Return

- Strength: really simple
- Weaknesses: again, everything else
  - overly simplistic
  - ignores cash inflows beyond payback period
  - Inadequate proxy for risk
Numeric Models – Discounted Cash Flow

Business appraisal approach in which estimates of the future cash flow and residual value are discounted to the present value by using the rate of return (capitalization rate)

Two different methods

- Internal rate of return (IRR)
- Net present value (NPV)
Numeric Models – Discounted Cash Flow

- **Strength:** More realistic, focuses on hurdle rate
- **Weaknesses:**
  - only as strong as the cash flow forecaster
  - How good are you at forecasting interest rates/inflation
Numeric Models – Internal Rate of Return

- Is the average annual return earned through the life of the project
- In general, if the IRR is greater than the project’s cost of capital, or hurdle rate, the project will add value.
- This is where it gets complicated.....
Numeric Models – Internal Rate of Return

IRR is a mechanical method and is not a consistent principle.

- It can give wrong or misleading answers, especially where two-mutually exclusive projects are to be appraised.
Numeric Models – Net Present Value

Difference between the present value of the future cash flows from an investment and the amount of investment.

Present value of expected cash flows is computed by discounting them at the required or minimum rate of return.
Numeric Models – Profitability Index

- Ratio of the present value of a project’s cash flows to the initial cash investment – greater than ‘1’ is good
Even if it’s the Numbers, it’s Never Just the Numbers...
Rule 12: Tell ‘em How You’re Going to Report Results, and Guarantee Outcomes on Success

- Forces you to start planning ‘from the end’
- Interim "It's going well"… “How do you know?” – checkpoints, stage gates, and off ramps
- Here’s the budget reduction the project will yield for next year…
- …and here’s our reduced staff count
Strategic portfolio management demands:

4. An ability to make tradeoffs between projects and their priorities
If you can’t make trade-offs effectively, this is what you get...
Ability to make tradeoffs

- You can have it good, you can have it fast, you can have it cheap….pick any two
Ability to make tradeoffs

- Typical complaint – sounds good, they want it all…

- Unless you can specifically show them the trade offs, “all good ideas are good ideas, regardless of the ‘degree of good’
## The Simplest Tradeoffs - Reflecting Constraints Against Capital Project Requirements

<table>
<thead>
<tr>
<th>Project</th>
<th>Capital (millions)</th>
<th>IT people required (person months)</th>
<th>Business people required</th>
</tr>
</thead>
<tbody>
<tr>
<td>ABC</td>
<td>1.2</td>
<td>2</td>
<td>1</td>
</tr>
<tr>
<td>Ted</td>
<td>3.3</td>
<td>4</td>
<td>2</td>
</tr>
<tr>
<td>NeXT</td>
<td>0.5</td>
<td>3</td>
<td>1</td>
</tr>
<tr>
<td>Project 2</td>
<td>0.7</td>
<td>5</td>
<td>2</td>
</tr>
<tr>
<td>Delta</td>
<td>0.5</td>
<td>2.5</td>
<td>4</td>
</tr>
<tr>
<td><strong>Tornado</strong></td>
<td><strong>0.4</strong></td>
<td><strong>3</strong></td>
<td><strong>1</strong></td>
</tr>
<tr>
<td>EPIC</td>
<td>1.3</td>
<td>2</td>
<td>1</td>
</tr>
<tr>
<td>Semaphore</td>
<td>0.8</td>
<td>1</td>
<td>0.5</td>
</tr>
<tr>
<td>Seahorse</td>
<td>0.6</td>
<td>2</td>
<td>0.5</td>
</tr>
<tr>
<td>Destiny</td>
<td>0.4</td>
<td>1</td>
<td>0.5</td>
</tr>
<tr>
<td>Calico</td>
<td>0.3</td>
<td>1</td>
<td>0.5</td>
</tr>
<tr>
<td>Xray</td>
<td>0.3</td>
<td>4</td>
<td>2</td>
</tr>
<tr>
<td>Bowman</td>
<td>1.2</td>
<td>5.5</td>
<td>3</td>
</tr>
<tr>
<td>ReBridge</td>
<td>0.9</td>
<td>3</td>
<td>2</td>
</tr>
<tr>
<td>Giraffe</td>
<td>0.7</td>
<td>2</td>
<td>1</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td><strong>13.1</strong></td>
<td><strong>41</strong></td>
<td><strong>22</strong></td>
</tr>
</tbody>
</table>

**Total available Capital:** $10 M

**Total available IT person months:** 24

**Total available business person months:** 11

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The organization is constrained by availability of business resources – without adjustments to resourcing, organization can only get down to Project Tornado in the portfolio.
Why? There’s a need to...

- support the efficient and responsible allocation of scarce resources
- explicitly align initiatives with Strategic Objectives
Why? Because…

- transparency and objectivity in project selection and prioritization becomes increasingly important as the organization grows
- there is demand for a defensible process from Senior Executives
- there will be demand for a defensible process from the stakeholder community (investors/stockholders)
- there is demand from staff for clarity and transparency in the process
Here’s how you do it

1. Prioritize the Strategic Objectives from the Strategic Plan

2. Identify Which Business Capabilities Best Support Prioritized Strategic Objectives

3. Consider the Interdependency of Business Capabilities (not on previous slide)

4. Identify and Prioritize Projects that Support Prioritized Business Capabilities

5. Impose Constraints on the Project Portfolio
**Impact of a constrained portfolio:**

Identify which **Projects** cannot be done (ascending order of importance), which **Business Capabilities** will be missed, and therefore which **Strategic Objectives** will not be realized.
Step 1: Prioritize the Strategic Objectives from the Strategic Plan
Start with Strategic Objectives

1. Increase Cdn Market Share 15%
2. 10% Cost Reduction for Canadian Manufacturing
3. Expand into the US
4. Acquire National Warehousing Capability
5. Consolidate European Distribution
Prioritize the Strategic Objectives from the Strategic Plan

- Working with the organization Senior Management as a group, create a pair-wise comparison of the relative importance of all the Strategic Objectives.

- Results represent the relative importance of each Strategic Objective, to allow the Business Capabilities and the projects that will deliver them to follow accordingly.

Step 1
Prioritize the Strategic Objectives from the Strategic Plan

- Pair-wise comparison
- Each Strategic Objective (SO) is compared against every other Strategic Objective, and rated in the following manner: “The relative importance of SO 1 (listed in the first row of the matrix) vs. SO 2 (listed across the columns of the matrix) is”:
  - Far more important
  - Considerably more important
  - Moderately more important
  - Equally important
  - Moderately less important
  - Considerably less important
  - Far less important

Step 1
Prioritize the Strategic Objectives from the Strategic Plan: Mechanics

- Assigning numbers to the answers: Note that there is no mathematical significance to the relative numbering i.e. rating a Strategic Objective as ‘Far more important’ yields a ‘score’ of 4, and ‘Moderately more important’ yields a score of 2 - this does not imply that the first Strategic Objective is twice as important as the second – the numbers are used to provide a rank, but not to indicate a relative relationship

- Far more important: Score 4
- Considerably more important: Score 3
- Moderately more important: Score 2
- Equally important: Score 0
- Moderately less important: Score -2
- Considerably less important: Score -3
- Far less important: Score -4

Step 1
Strategic Objectives: Pair-wise Comparison Example

<table>
<thead>
<tr>
<th></th>
<th>Increase Cdn Market Share 15%</th>
<th>10% Cost Reduction for Canadian Manufacturing</th>
<th>Plan to Expand into the US</th>
<th>Acquire National Warehousing Capability</th>
<th>Consolidate European Distribution</th>
</tr>
</thead>
<tbody>
<tr>
<td>Increase Cdn Market Share 15%</td>
<td>EI</td>
<td>EI</td>
<td>CLI</td>
<td>MLI</td>
<td>MMI</td>
</tr>
<tr>
<td>10% Cost Reduction for Canadian Manufacturing</td>
<td>EI</td>
<td>CLI</td>
<td>MLI</td>
<td>MMI</td>
<td>MMI</td>
</tr>
<tr>
<td>Plan to Expand into the US</td>
<td>CMI</td>
<td>CMI</td>
<td>MLI</td>
<td>FMI</td>
<td>FMI</td>
</tr>
<tr>
<td>Acquire National Warehousing Capability</td>
<td>MMI</td>
<td>MMI</td>
<td>MLI</td>
<td>CMI</td>
<td></td>
</tr>
<tr>
<td>Consolidate European Distribution</td>
<td>MLI</td>
<td>MLI</td>
<td>FLI</td>
<td>CLI</td>
<td></td>
</tr>
</tbody>
</table>

FMI – Far more important CMI – Considerably more important MMI – Moderately more important
EI – Equally Important MLI – Moderately less important CLI – Considerably less important FLI - Far less important
**Strategic Objectives: Pair-wise Comparison Example**

<table>
<thead>
<tr>
<th></th>
<th>Increase Cdn Market Share 15%</th>
<th>10% Cost Reduction for Canadian Manufacturing</th>
<th>Plan to Expand into the US</th>
<th>Acquire National Warehousing Capability</th>
<th>Consolidate European Distribution</th>
</tr>
</thead>
<tbody>
<tr>
<td>Increase Cdn Market Share 15%</td>
<td>-3</td>
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<td>-3</td>
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<tr>
<td>Plan to Expand into the US</td>
<td>3</td>
<td>3</td>
<td>2</td>
<td>4</td>
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<tr>
<td>Acquire National Warehousing Capability</td>
<td>2</td>
<td>2</td>
<td>-2</td>
<td>3</td>
<td></td>
</tr>
<tr>
<td>Consolidate European Distribution</td>
<td>-2</td>
<td>-2</td>
<td>-4</td>
<td>-3</td>
<td></td>
</tr>
</tbody>
</table>
Mechanics:

- To do the prioritization math, we should end up with a positive prioritization number for each Strategic Objective...

- How: Offset the total scores for each Strategic Objective row against the possible worse case for a Strategic Objective (where every other Strategic Objective would be ‘far more important’) to get a positive number e.g. with 5 SOs, at worst, 1 of them could be ‘far less important’ than the other 4, therefore total worst case = -4 x 4 = -16.
Mechanics Example:

- Consolidate European Distribution:
  - difference between -16 (worse case) and -11 (total for Strategic Objective) = 5

- Acquire National Warehousing Capability:
  - difference between – 16 (worse case) and 5 (total for Strategic Objective) = 21
Assigning numbers to the answers: Note that there is no mathematical significance to the relative numbering i.e. Consolidate European Distribution ‘scores’ 5 and Acquire National Warehousing Capability ‘scores’ 21 – Acquire National Warehousing Capability is more important than Consolidate European Distribution, but the numbers are not meant to imply that Acquire National Warehousing Capability is more than 4 times (5 x 4 = 20) as important as Consolidate European Distribution.
Result: Prioritized Strategic Objectives

- Expand into the US: 28
- Acquire National Warehousing Capability: 21
- Increase Cdn Market Share 15%: 13
- 10% Cost Reduction for Canadian Manufacturing: 13
- Consolidate European Distribution: 5

Step 1
5 Strategic Objectives from Strategic Plan

Prioritized Business Capabilities that support Strategic Objectives

Prioritized Projects that address Prioritized Business Capabilities

Prioritized Project Portfolio given constraints

Impact of a constrained portfolio: Identify which Projects cannot be done (ascending order of importance), which Business Capabilities will be missed, and therefore which Strategic Objectives will not be realized

Resource Constraints, $ and people
Step 2: Identify Which Business Capabilities Best Support Prioritized Strategic Objectives
Identify Which Business Capabilities Best Support Prioritized Strategic Objectives

- A Business Capability is something that an organization will ‘need to do’ to address a Strategic Objective
- A collection of Projects will support Business Capability
Prioritize Business Capabilities Based on how they will Impact each Prioritized Strategic Objective

- Which Business Capabilities are most important to achieving the Strategic Objectives?
Prioritize Business Capabilities Based on how they will Impact each Prioritized Strategic Objective

- Prioritize by the ‘impact’ of the Business Capabilities (BC) on the SOs
  - This BC is mandatory to achieve the SO: score 4
  - This BC is important in achieving the SO: score 2
  - This BC will neither help nor hinder in achieving the SO: score 0
- Multiply BC scores by the SO priority numbers to yield a prioritized list of Business Capabilities
Example of Business Capabilities

- Ability to forecast demand within 15% 5 years forward
- Compare pricing of each of our products against Canadian, US, UK, and Euro zone CPI costs quarterly
- Update inventory level to field sales reps in real time
- GPS track all shipments in real time
- Credit approvals within 2 hours
### Business Capabilities Scores Against Strategic Objectives

<table>
<thead>
<tr>
<th>Business Capability</th>
<th>Expand to US</th>
<th>Acquire nat’l whse</th>
<th>Increase Cdn market share</th>
<th>10% cost reduction for mfg.</th>
<th>Consolidate Europe ops</th>
<th>Total for Business Capability</th>
<th>Dependent on business capability</th>
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<tbody>
<tr>
<td>a</td>
<td>0</td>
<td>4</td>
<td>0</td>
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<td>4</td>
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<td>0</td>
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<td>0</td>
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#### Step 2

The table above represents the value ranking of strategic objectives based on their contribution to various business capabilities. Each objective is scored on a scale from 0 to 4, with higher values indicating greater importance or alignment with the business strategy. The total score for each objective is calculated by summing the scores across all dimensions. The dependent on business capability column indicates whether the objective is directly linked to a specific business capability.
## Prioritized Business Capabilities Scores Against Strategic Objectives

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5 Strategic Objectives from Strategic Plan

Prioritized Business Capabilities that support Strategic Objectives

Prioritized Projects that address Prioritized Business Capabilities

Prioritized Project Portfolio given constraints

Resource Constraints, $ and people

Impact of a constrained portfolio: Identify which **Projects** cannot be done (ascending order of importance), which **Business Capabilities** will be missed, and therefore which **Strategic Objectives** will not be realized
Step 3: Consider the Interdependency of Business Capabilities
The Process must consider the Interdependency of BCs

- Some of the Business Capabilities depend on each other (e.g. some must be put in place before others), regardless of how they are prioritized in terms of their ‘pure’ impact on Strategic Objectives
- Business Capabilities will likely need to be re-prioritized based on these dependencies
Mechanics: the Prioritized Business Capabilities need to reflect dependencies

- Total for some of the BCs may need to be adjusted to reflect dependencies
- A BC that needs to be put in place prior to (as a prerequisite for) another BC should be assigned a total ‘one higher’ than the highest rank BC that depends on it
### Prioritized Business Capabilities Including Dependencies

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Result: Prioritized Business Capabilities that Reflect Dependencies

- List of Business Capabilities are now explicitly ranked to align with the priority of the organization's Strategic Objectives.
- Cognisant of the ‘reality’ of how these Business Capabilities depend on each other, regardless of pure ranking.
Impact of a constrained portfolio: Identify which **Projects** cannot be done (ascending order of importance), which **Business Capabilities** will be missed, and therefore which **Strategic Objectives** will not be realized.
Step 4: Identify and Prioritize Projects that Support Prioritized Business Capabilities
Identify and Prioritize Projects that Support Prioritized Business Capabilities

- Which Projects are most important to achieving the prioritized Business Capabilities?
- Rank the ‘impact’ of each project on achieving each of the prioritized BCs
  - This project is mandatory to achieve the BC
    Score 4
  - This project is important in achieving the BC
    Score 2
  - This project will neither help nor hinder achieving the BC
    Score 0
Identifying and Prioritizing Projects that Support Prioritized Business Capabilities

- Multiply Project ‘impact’ numbers against the BC Priorities to yield a Prioritized Project List
Prioritized Project List

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Total:
- 1504
- 1064
- 1000
- 956
- 856
- 844
- 756
- 708
- 656
- 624
- 586
- 508
- 460
- 412
- 404
Prioritized Project List

- ABC 1504
- Ted 1064
- NeXT 1000
- Project2 956
- Delta 856
- Tornado 844
- EPIC 756
A Note on Project Estimates

- Each Project for consideration in the ‘unconstrained project portfolio’ should be assessed realistically using 3 point estimates with a target based on likely outcome.
The Efficient Frontier

- Developed by UMT Portfolio Management
- According to UMT’s white paper from November, 2003:

“The Efficient Frontier is a fundamental scientific method that is extremely effective in visually summarizing the information required to understand all the portfolio possibilities, the cost tradeoffs, and the factors that affect the efficiency of the portfolio.”
The Efficient Frontier answers 2 key questions

- What are the best possibilities of projects that an organization can implement given the available budget and organizational capabilities
- Are we getting the best from our potential portfolio of projects? If not, why are we not getting the most from our investment portfolios
For more information on The Efficient Frontier

www.umt.com
Result: an Unconstrained Project Portfolio

- List of projects that explicitly:
  - Line up with Strategic Objectives
  - Address the Business Capabilities that are necessary to meet the Strategic Objectives
  - Reflect the dependency of the organization Business Capabilities
This is the Order You Would Do Things...

…if there were no constraints
Unconstrained Project Portfolio
Impact of a constrained portfolio: Identify which **Projects** cannot be done (ascending order of importance), which **Business Capabilities** will be missed, and therefore which **Strategic Objectives** will not be realized.
Step 5: Impose Constraints on the Project Portfolio
<table>
<thead>
<tr>
<th>Project</th>
<th>Capital required (millions)</th>
<th>IT people required (person months)</th>
<th>Business people required</th>
</tr>
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<tbody>
<tr>
<td>ABC</td>
<td>1.2</td>
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<td>Ted</td>
<td>3.3</td>
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<td>2</td>
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<tr>
<td>Delta</td>
<td>0.5</td>
<td>2.5</td>
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<td><strong>Tornado</strong></td>
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<tr>
<td>EPIC</td>
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<td><strong>TOTAL</strong></td>
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<td><strong>41</strong></td>
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</table>

**Total available Capital:** $10 M  
**Total available IT person months:** 24  
**Total available business person months:** 11

The organization is constrained by availability of business resources – without adjustments to resourcing, organization can only get down to Project Tornado in the portfolio.
Impose Constraints on the Project Portfolio

- How many resources does the organization have to apply to the projects on this list?
- Are the business resources available to support this volume of projects?
- Is there money in the budget to support these projects?
- Are there other risks to consider?
If Not...

- Move projects ‘below water’ from the ‘bottom up’ of the Prioritized Project List
- Does the ‘demotion’ of a project below water mean that a Business Capability will not be met?
- If a Business Capability is not met, does that mean that a Strategic Objective is at risk?
Result: a Constrained Project Portfolio

- List of projects that explicitly:
  - Lines up with Strategic Objectives
  - Addresses the Business Capabilities that are necessary to meet the Strategic Objectives
  - Reflects the dependency of the organization Business Capabilities
  - Reflects the reality of the resources available to the organization
...and that’s how you reflect tradeoffs
Optimize the portfolio

What does optimized portfolio mean?

- Summarizing the information required to understand all the possibilities, the cost tradeoffs, and factors that affect the efficiency of the portfolio
- Exploit opportunities and create value. In a nutshell any opportunity to save money and create value is a good thing!
- When looking at constraints...what potential value is destroyed by the each constraint?
- Opportunity costs – what happens if you were to invest and additional dollar versus the additional value received. What gives the biggest bang for your buck?
How Would it Work on a Go-forward Basis?

- An initial project portfolio would be created for 2006.
- The organization’s Strategic Objectives will be reviewed with the organization’s Senior Management quarterly, and the portfolio adjusted to match changes in Strategic Objectives priorities as required.
- Director Corporate PMO (PPC), would share responsibility for managing this process, with sponsorship from the CEO.
How Would it Work on a Go-forward Basis?

- This process will be used to stimulate conversation and drive clarity ("What exactly do we mean by 10% Cost Reduction for Canadian Manufacturing?") as much as anything
Result: a Constrained Project Portfolio

- List of projects that explicitly:
  - Line up with Strategic Objectives
  - Address the Business Capabilities that are necessary to meet the Strategic Objectives
  - Reflect the dependency of the organization Business Capabilities
  - Reflect the reality of the resources available to the organizations
…and now that you’ve got a Working Portfolio
Workshop Question and Answer and Parking Lot Clean-up