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Chapter 1: Introduction to Strategic Portfolio Management

Katy Angliss

The term 'portfolio' is not new. It can be traced back to the eighteenth century, originating from the Italian word 'portafoglio', meaning a case for carrying documents. It became known more specifically as a collection of documents, such as those by an artist or photographer (Merriam-Webster, 2021). This has developed into a wider meaning of portfolio as a collection or grouping. The term has been used in various different contexts, most prevalently being associated with the financial industry, where 'portfolio' often means a collection of investments. The term portfolio can also be found in several other contexts in more recent years, such as in politics with 'ministerial portfolios', in education with 'teaching portfolios' and also as a term used for individuals who have a 'portfolio career'. The term portfolio is also used in organisational and business contexts, as with a marketing portfolio as a collection of products, services or brands. Since the late 1990s, with the growing interest in managing the complexity of delivering multiple projects, there has been a recognition that a project portfolio can be defined and managed. With the recognition of the importance of multi-projects and programs in delivering organisational strategy (Morris, 2022), the strategic portfolio is increasingly being understood to be a collection of projects and programs delivering strategic objectives.

This book takes the view that organisational strategy is executed, in most organisations, by a portfolio of programs and projects (and other non-project activities when required). This places strategic portfolio management in the domain of organisational strategic management. The anticipation is this book will appeal to executive managers in all departmental areas, strategists, portfolio directors, managers, and analysts, as well as program and project managers, and students of all these areas of study.

This introduction looks briefly at the origins of portfolio management in the organisational context, including why the importance of portfolio management may not be fully recognised. It also discusses the significant value brought to organisations by integrating strategic portfolio management (SPM) within the strategic processes and structures. The book does not cover project and program management, except as far as is needed to understand ideas about portfolio management. Annex 1 to this chapter illustrates the differing but connected roles of projects, programs, and portfolios.

PORTFOLIO MANAGEMENT WITHIN THE STRATEGIC CONTEXT

The academic fields of organisational and strategic management have mainly focussed on strategy development, with fairly minimal reference to the implementation of the strategy, once it has been developed. Some of the thinking in this field however does recognise the role of portfolios, discussing portfolio matrices and the portfolio manager in the context of the corporate entity. Portfolio managers are defined as having a role to improve performance and extract maximum value through target setting, intervention, and provision or withdrawal of investment (Whittington et al 2020).

In parallel, the project management orientated academic literature has started to broaden its interest in executing strategy, from focussing on single project environments to multi-project environments. This has happened firstly through developing theory about project portfolio management (PPM); and secondly, conceptualising project, program, and portfolio management (P3M) as an integrated system for delivering strategic objectives. The project management field of research, however, still tends to conceptualise portfolio management as being an extension of project and program management theory.

There are a number of publications on the subject of project portfolio management (PPM), where PPM is concerned with managing a collection of projects. Dye & Pennypacker (1999) identified the current perspective on PPM and its capacity to help achieve competitive advantage. This helped to move project management theory beyond business benefits delivery as the '*raison d'etre*' for projects' existence, towards recognising that, in fact, value creation is the fundamental imperative (Morris, 2013; Pennypacker & Dye, 2002; Pennypacker & Retna, 2009).

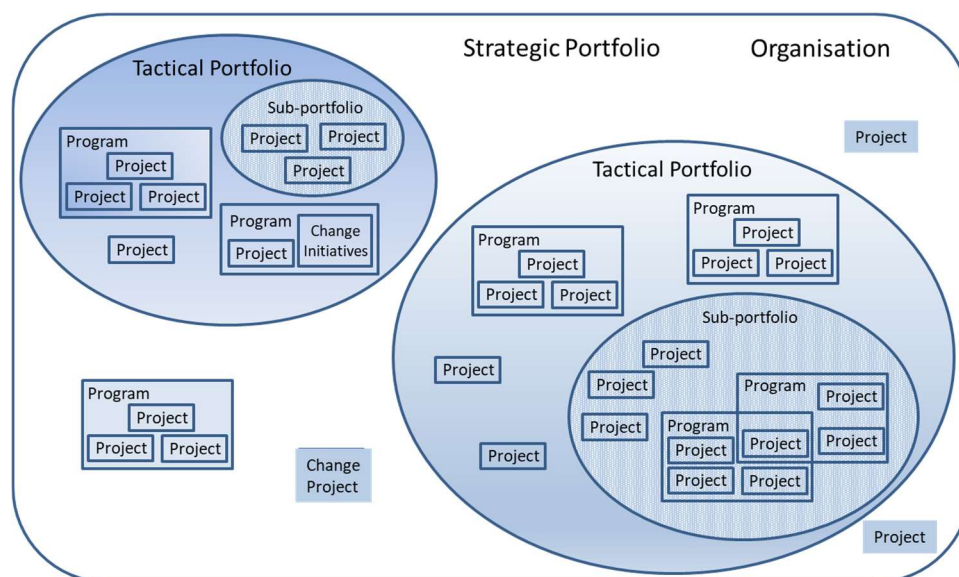


Figure 1.1: The SPM relationship between portfolios, programs and projects (adapted from Lock & Wagner, 2016)

Figure 1.1 shows the relationship between the portfolio and the projects and programs that are within the strategic portfolio. The premise of this book is that portfolio management is not a continuation 'upwards' from projects and programs, it is the *critical linking structure and framework from strategy formulation to strategy execution*. Strategic portfolio management translates organisational strategy into action. The strategic portfolio is integrated within the organisational environment and incorporates all work needed to achieve strategic objectives. Projects and programs deliver strategically defined business benefits that are then aggregated into strategic value for the organisation (Cooper et al, 2001).

Emphasising the criticality of the strategic portfolio and its effective management requires a shift in mindset from much of the established literature on portfolio management. From the viewpoint of those in strategic and executive management, programs and projects must become understood as, crucially, the most effective way to deliver strategic objectives, and are therefore of central importance, and not 'merely' tactically useful entities. From a program and project management viewpoint, the portfolio and its management is not an extension of project management theory and practice, it is a strategic activity that has little relation to project theory, except in the broadest sense. For example, project resource allocation and portfolio resource allocation are connected by general theories of resource allocation, but not by a specific theory of resource allocation as practiced in projects.

Differences of orientation on portfolio management, depending on perspective, can be found in the literature. The framework around which the strategic portfolio is managed, in Lazar (2019), has four pillars: organizational agility, strategy, risk, and resources. From a PPM perspective we find Moustafaev, (2016) has three pillars: projects maximising value, projects selected for a balanced portfolio, and projects strategically aligned with business strategy. In the project management world, the UK Government, back in 2011, noted that the time had come to fully recognise portfolio management as a separate discipline - distinct from project and program management (Axelos, 2011). This process is still underway.

Strategic portfolio management focusses on whether the right projects and programs are being delivered, through strategic alignment and integration processes: by *choosing* the right projects to start with, *not* aligning projects to strategy '*post facto*'; maximising value to the organisation on a continuous basis; ensuring project and program delivery is effectively achieving strategic objectives; and prioritising resource allocation to support effective execution of strategy.

THE STRATEGIC PORTFOLIO

Whittington et al. (2020) define three levels of strategy as Corporate, Business, and Operational. Following the logic of the preceding section, there is a clear implication that portfolios must exist at each of these three levels, to translate strategic intentions into actionable projects and programs. Figure 1.2 shows the three levels of strategy in relation to portfolio levels and to the themes of strategic alignment, together with the top down and bottom up (or emergent strategy, discussed in detail in Chapter 3). The themes of strategic alignment shown here, with the strategy cascading down through the three levels from a top-down approach, considers firstly the question of assessing and defining the strategic direction at the corporate level, with the business level agreeing how they will align to the corporate direction and their resulting main areas of focus. This flows down to the tactical portfolios and how each operational unit will deliver the strategic objectives they are responsible for, matching this with the required resources and asset management.



Figure 1.2: Levels of organisational strategy and portfolios

Taking the organisational view, that all business activity should be related to moving the organisation toward its strategic objectives, all the activities of the organisation (including all its business units) are contained in the corporate 'book of work' (Harpum, 2010) – strategic portfolios should therefore include the whole organisation. Such a viewpoint helps reduce executives' only-human tendency to focus on some strategic projects and not others. Such selective focus easily leads to negative effects on overall performance for short-term gain, fostering fragmentation of strategic effort, and reduces coordination of resources (Martinsuo & Geraldi, 2020).

At the sub-portfolio level, the operational portfolios could be at departmental level, where management of resourcing is a priority. For example, an engineering manager may make decisions

about which engineers in the team are allocated to specific projects or programs. Project portfolio management (PPM), as distinct from strategic portfolio management, is relevant here for managing a sub-set of the overall strategic portfolio, such as: business divisional portfolios; departmental portfolios; operational portfolios; tactical portfolios; or a change portfolio. This means the strategic portfolio could include: multiple sub-portfolios; programs; projects; and/or non-project (operations) initiatives, see figure 1.1. In cases where the strategic portfolio is constructed with this range of ways of organising work, it is inevitable that it will have a high level of complexity (Marcondes et al, 2019, Muller et al, 2019), that needs careful, dedicated, and high quality management.

Strategic portfolios, in this context, are defined as:

Strategic portfolios define, manage, and deliver all the 'organisational work' (including projects, programs, and other change activity) to continuously achieve organisational strategic objectives.

STRATEGIC PORTFOLIO MANAGEMENT

Unlike projects and programs, portfolios are continuous rather than having a defined lifecycle, see figure 1.3. The portfolio activities are shown as a continuous cycle typically aligned with the business strategic planning cycle, as proposed by much of the literature (for example, Platje et al, 1994). The portfolio is seen to continuously adapt and change with emergent strategy, redefining, reclassifying, reprioritising, and rebalancing as needed, whilst maintaining stability and direction within the organisational environment. A range of processes and capabilities are needed to manage the strategic portfolio.

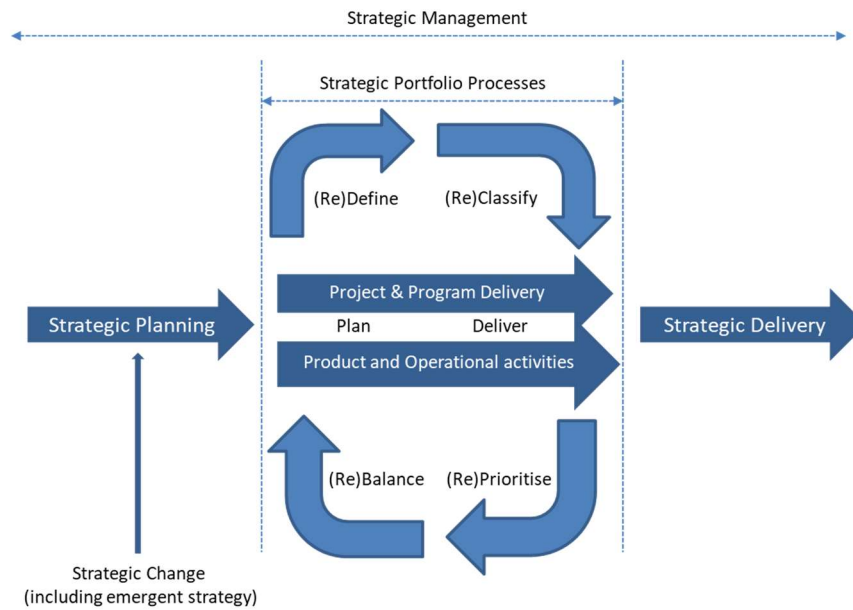


Figure 1.3: Strategic portfolio activities and the strategic planning cycle

Garfein (2008) proposed a model that integrates the lifecycle aspect and multiple managerial capabilities and processes needed to effectively manage portfolios, figure 1.4. In this model there are four areas of focus: portfolio strategic objectives that are unique to the enterprise; portfolio dependencies as the channels through which the portfolio objectives are achieved; portfolio delivery as the heart of the model; and portfolio management capabilities.

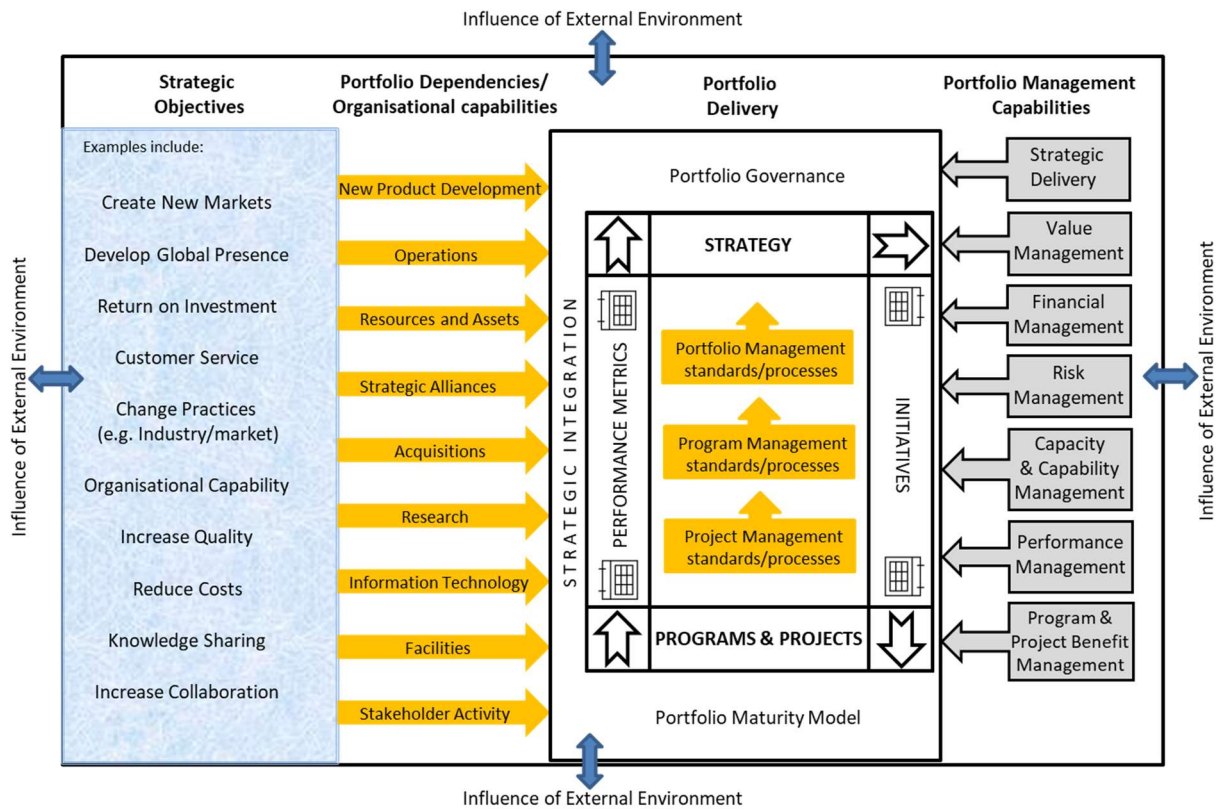


Figure 1.4: Strategic Portfolio Management model (adapted from Garfein, 2008)

From Garfein's model, it is clear that delivering organisational strategy means integration is an essential element of SPM. This book takes the view that, in fact, integration and strategic integration, within and across the strategic portfolio, is not just one of the pillars for success, but *is the central pillar*, driving all other aspects of portfolio direction and delivery, see figure 1.5.

The portfolio environment covers not only projects and programs, although these are important to portfolio success, but the wider organisational environment. There are four main capabilities for SPM discussed: strategic value optimisation; project, program, and organisational change prioritisation and allocation; portfolio management and organisational capabilities, and integrated governance and assured delivery (figure 1.5).

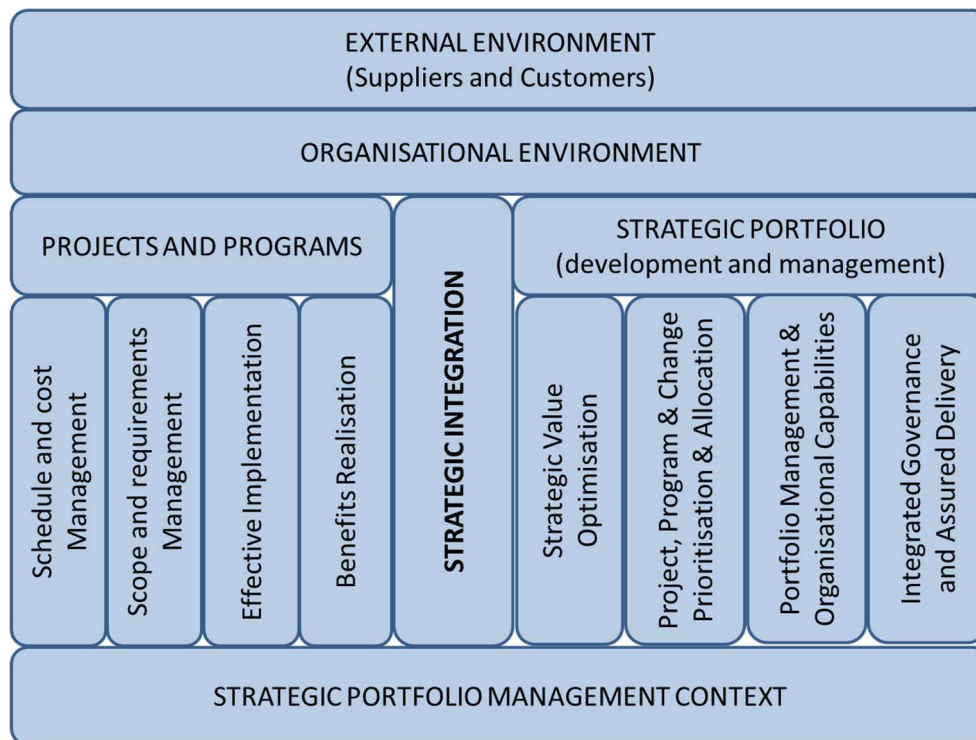


Figure 1.5: The wider portfolio management context with strategic integration

The premise of this book, structured around the main themes from figure 1.5, is that portfolio management is not a continuation ‘upwards’ from projects and programs, it is the *critical linking structure and framework from strategy formulation to strategy execution*. Strategic portfolio management translates organisational strategy into action and hence one of the initial chapters in the first section discusses organisational strategy and strategic delivery with portfolio management - ‘SPM is the strategy for strategic deployment’. The later chapters of this first section expand on how projects, programs and other change activities deliver strategically defined business benefits that are then aggregated into strategic value for the organisation (Cooper et al, 2001).

The strategic portfolio is introduced in the second section, demonstrating how it is integrated within the organisational environment and incorporates all work needed to achieve the strategic objectives. Again, considering the organisational view, Strategic Portfolio Management should encompass the capabilities and processes required to ensure and assure the delivery of the strategic portfolio in its entirety. These portfolio and organisational capabilities are discussed in section three.

Strategic portfolio management in this context is therefore defined as follows:

Strategic Portfolio Management is the continuous delivery of organisational strategy in creating strategic value through strategic portfolios.

KEY THEMES AND STRUCTURE OF THE BOOK

This book provides the knowledge, both theoretical and practical, to build and manage such high performing strategic portfolios, based on the following premise:

- *Strategic portfolio management* is the primary link between organisational strategic planning (at the corporate level or equivalent) and the delivery areas of the organisation, such as projects, programs and operational activities (the corporate 'portfolio of work').
- The primary focus is on *strategic delivery with strategic alignment and integration* through portfolio management with strategic portfolios and effective portfolio management capabilities.
- *Strategic value* is primarily delivered at the portfolio level with aggregated benefits from the projects and programs, in measuring the delivery of strategic objectives.
- *Projects and programs are fundamental* in delivering the organisational strategy and value within the strategic portfolio.
- *Strategic portfolios* are multi-layered (strategic and tactical) and can mirror the three levels of strategy: operational, business and corporate.
- The *strategic portfolio should be flexibly aligned (re-aligned) and fully integrated within its organisational environment*, ensuring capacity and capability of portfolio elements are continuously managed against strategic objectives. The predominant focus of portfolio management is on the uncertain and complex organisational and external environment, with a top-down rather than bottom-up approach where applicable, recognising emergent strategy.

Large organisations often have a vast array of different projects and programs, within several business units, across multiple locations. These projects and programs will be competing for resources. Individual project and program benefits may not be clear. The overall value to be achieved by the strategic portfolio may not be clear (or even defined). Some work may not be aligned to the strategic objectives. Some projects and programs may not have been prioritised correctly and require significant investment of money and/or people. Some projects may be delivering only minimal (or no) strategic value. Those leaders with portfolio management and strategic delivery responsibility might be asking themselves these questions:

- Is the business effectively delivering the organisational strategy?
- Are all projects and programs aligned to business strategy?

- Are projects and programs continuously delivering investment value?
- Are the benefits to the business outstripping the investment in change and improvements (and the overall spend on projects and programs managed collectively)?
- Are all the resources available in the business units to achieve the desired change, being well managed, and not overloaded with change?
- Is the portfolio being managed at the correct level within the organisation, with the portfolio risks sufficiently managed?

High-quality, effectively designed strategic portfolio management provides the answers to these questions, and more. The four sections of this book cover each of these in more detail.

Section One – *Strategic Portfolio Management in Context*

This first section discusses the background to portfolio management in detail and focuses on the key theme of organisational strategy as a main driver for SPM in delivering organisational strategy, developing the argument for an integrated portfolio within the organisational environment. Organisational strategy is discussed where it relates to effective portfolio management, including the more specific topic of scenario planning. This section establishes that the delivery of benefits from projects and programs and other activities to the strategy is fundamental in achieving strategic value and that organisational change activities are also a key part of the portfolio. The section also discusses the challenges in defining strategic value. These aspects are brought together in considering portfolio management success.

Section Two – *Defining and Managing the Strategic Portfolio*

This section develops the discussion of the strategic portfolio, covering integration of the portfolio within the organisational environment and strategic portfolio context, followed by discussion of environmental factors, establishing the portfolio as part of an open system, and introducing the portfolio management capabilities for further expansion in section three. The portfolio processes are used as a framework for discussion of the definition of the portfolio, such as portfolio selection including portfolio classification, prioritisation and balancing, and the selection methods themselves (including financial measures for establishing strategic value).

Section Three – *Portfolio Management Capabilities*

This section brings together the aspects of portfolio management and the strategic portfolio discussed in previous sections and looks more specifically at portfolio management capabilities including asset and resource management, portfolio governance and the portfolio office, data analysis and

management, portfolio risk management, portfolio decision-making, and portfolio leadership. The section concludes by considering portfolio management in the context of the supply chain and agile portfolio management for enabled delivery.

Section Four – *Portfolio Management Case Studies*

This section covers case studies from different industrial sectors, focusing on varying aspects of strategic portfolio management including;

- Engineering of complex systems with portfolio management.
- Developing a portfolio management decision-making tool in the pharmaceutical industry.
- Delivering a multi-billion-pound portfolio in the Utilities sector.
- A utilities and construction portfolio focussing on design for manufacture and assembly.
- A case study discussing governance and leadership for portfolios across industrial sectors.
- An example of the development of a portfolio management maturity model.

These case studies provide real world examples of how effective portfolio management can be beneficial to an organisation, as well as offering insights and advice on the challenges of implementation of SPM.

Questions

Questions to consider when reading through each chapter are presented after the introduction to each section. The material review questions provide sign-posting for the key take away messages for each chapter. A second set of further discussion questions are also included, perhaps for a classroom discussion, or for consideration within an organisation contemplating refining or developing strategic portfolio management.

CONCLUSION

This chapter has introduced strategic portfolios and strategic portfolio management, starting with the origins of portfolio management, identifying the main topics for SPM, and the key themes discussed throughout the book. This book is not intended to provide a 'how to' manual for portfolio management, but to present alternative perspectives in identifying strategic portfolio management as a subject within organisational studies and business research, rather than solely within project management; and to bring insight and practical wisdom to practitioners working in strategy formulation, selection and strategy execution.

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CHAPTER 1 ANNEX: COMPARISON OF PORTFOLIOS, PROGRAMS AND PROJECTS

To set the context, Table 1.1 provides a comparison of the three organisational constructs of portfolios, programs, and projects. This is predominantly based on the (perhaps controversial) viewpoint, of a linear hierarchy for portfolios, programs and projects, shown in figure 1.6.

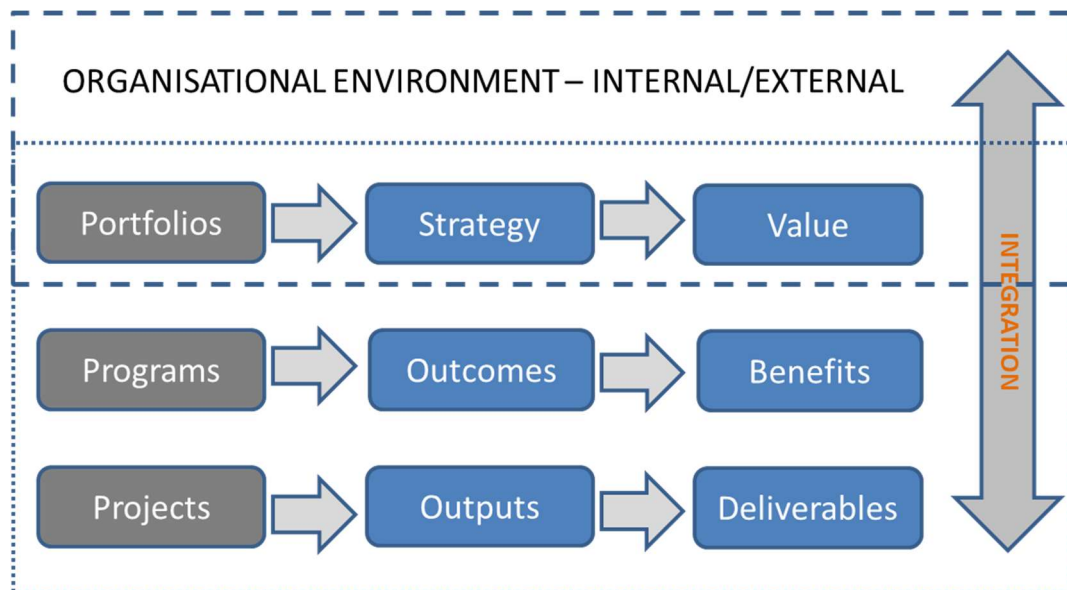


Figure 1.6: The traditional relationship between portfolios, programs and projects

Area	Project	Program	Portfolio
Lifecycle	Defined, typically five phases.	Longer, less defined, includes tranches and islands of stability.	Longer term, no defined end date, can be continuous within the strategic planning lifecycle.
Focus	Management & co-ordination.	Direction & delivery of strategy.	Alignment with corporate strategy.
Vision & Blueprint	Not applicable for project boundary, focus on project goals.	Within program boundary. Focus typically on one strategic objective.	For the entire Organisation at portfolio level or for sub-portfolios.
Business Case	Budgeting for output delivery.	Benefits vs costs of program & associated projects.	May not exist or be conceptual. Incremental vs entire business transformation through projects & programs.
Success Criteria	Measured by achievement of product cost, quality & timescales.	Benefits realisation and stakeholder perception.	Organisational performance and value to investors and stakeholders.
Benefits & Value	Fit for purpose outputs to enable benefit realisation.	Dominant focus on benefits profiling & realisation.	Organisational value, benefits & goals.
Scope	Defined.	Benefit focus. Transient with desired change.	Strategic business objectives and value creation. Can change with strategic goals of organisation.
Governance	Follow set governance standards.	Program level standards & strategies.	Setting organisational standards & policies.
Stakeholder engagement	All levels, mainly inside organisation.	All levels, inside & outside organisation.	Strategic & external focus.
Leadership	Execution orientated. Main focus on project team.	Relationship building and conflict resolution. Focus on program vision.	Add value to portfolio decisions. Focus on mission & organisational direction.
Risk focus	Cost, quality & timescales. Focus on threats.	Project, operation & strategic. Focus on opportunities.	Strategic & Business continuity. Deviation from expectations (Portfolio balance).
Issue focus	Product & fit for purpose.	Inter-project & benefits delivery.	Beyond program boundaries & margins.
Quality focus	Fit for purpose outputs to meet requirements.	Control of outcomes & Improvement.	Portfolio alignment & effectiveness.
Planning	Product & activities, outputs & deliverables.	Outcomes, interdependencies, tranches.	Outcome dependency & conflict resolution.
Timescales	Constrained & specific.	Loosely defined, focused end point.	Vague or undefined, continuous.
Schedule	Time to deliver quality product.	Combined schedules of project & other program activities.	No defined schedules. Achieved strategic value through aggregated benefits tracking.
Monitoring & control	Directly monitor & control activities.	Program governance mechanism.	Monitors aggregated performance of portfolio components & strategic value indicators against external environment.

Table 1.1: Comparison of projects, programs and portfolios (adapted from Axelos, 2011)