

# Portfolio management sharpens business reaction

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For decades, new business management approaches chronically lagged well behind the steady advances that have been made in almost every physical area of business and industry. Our 21st century environment of constant change requires new methods of decision making and collaboration to keep pace with foreshortened product lifecycles. Portfolio management is emerging as a widely accepted method for controlling the cycle of change, from inception to operation.

For those engaged in the process of creating and managing products, services or other organizational assets, the ever-increasing compression of attendant deliverable life expect-

ancies are a given. Steady advances in technology, materials and manufacturing processes, coupled with the pressure of global competition and customers conditioned to expect constant refinement, means we now operate in a cycle of nearly continual change. This phenomenon is extraordinarily pervasive; no one industry vertical, market sector or size of organization is immune to its effects.

It is equally apparent that traditional compartmentalized management and governance techniques are struggling not only to keep up, but to avoid becoming the most limiting factor. Organizations no longer can afford to implement change

serially as a strict sequence of analyze > design > build > deliver.

Assessing performance relative to the operational landscape; setting strategy about which products to develop, improve or retire; capitalizing on innovation, ruthless and efficient execution and being first-to-market — all of these require real-time information and razor sharp, integrated decision making. To remain competitive under the weight of collapsing product lifecycles, change management operations are under pressure to function as a seamless network of nearly parallel phases; in essence, you need to be able to operate in a compact, closed-loop cycle of analyze → design

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## EXECUTIVE SUMMARY

New business management techniques tend to lag behind other industry advancements. Thus the transformation of portfolio management from a process that mainly handles investments to an organized approach to tame change within your organization may come as a surprise. But grouping together products, services, projects, infrastructure, strategies and other business processes allows managers to examine collected disparate information and rapidly enact changes to meet continually evolving market demands.

→ build → deliver.

Ironically, as the need for a more integrated operating model grows, organizations are finding that it is becoming more difficult to attain. Each advance drives additional specialization, an increase in the amount of knowledge and information to manage, obsolescence of existing assets and a host of other complications. Where information and organizational silos once were defined primarily at the business unit or departmental level, we now find them reinforced by literally dozens, if not hundreds, of silos between groups and teams, within engineering, marketing, production and sales. This honeycomb

of specialized cells naturally reduces operational elasticity, or the ability of your organization to communicate quickly and respond dynamically to changes in a unified manner. Tightly aligning the organization to common objectives while maintaining the agility to shift focus as changes unfold are key capabilities to moving today's organizations forward.

The discipline of portfolio management quickly is becoming a preferred mechanism to help counter the effects of continual change. Portfolios once were used almost exclusively as a tool for managing financial assets, where general portfolio management techniques were

refined over several decades of practice. Now, the proven ability of portfolios to simplify complex scenarios, provide a high degree of visibility, enable comparative analysis and drive collaborative, dynamic decision making is being discovered and employed across a number of different areas of the business. No longer limited to the domain of financial officers and analysts, portfolios now are being used to address a host of intricate business challenges.

But, as its popularity and usage continues to grow, how familiar are you with portfolio management techniques? Can you really explain what portfolio management means? Perhaps as importantly, how does your understanding of the discipline compare to those of your associates or its use within your industry?

It is not unusual to hear portfolio management defined as, "well, it means that you are managing a portfolio of something..." The varied nature of that something, combined with the meaning of "management" in the context of various portfolio types, often results in a variety of perceptions about the term and the practice. With differing opinions comes opportunity for confusion. This article will clarify and simplify portfolio management so that you can relate how it might apply to your specific role, interests or area of business.

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### What is a portfolio?

Quite simply, a portfolio is a collection of independent elements that are grouped together for some common purpose. For example, projects often are grouped into portfolios, so much so that in some organizations, (project) portfolio management is the assumed meaning of the term. Depending on the need, a project portfolio might represent the projects associated with a single program, a list of all potential capital investments, or a summary of the different deliverables that are

being developed for a given customer. Indeed, it is useful to manage projects within portfolios, but this represents a somewhat limited and tactical application of the technique.

Portfolios offer a much wider range of applicability — you can create product portfolios, investment portfolios, service portfolios, application portfolios, infrastructure portfolios, resource portfolios, asset portfolios, strategic portfolios, etc. Virtually anything can be grouped into a portfolio. You could, for example, consider a restaurant menu as the portfolio of gustatory offerings that are available at any given time.

This brings us to “common purpose.” The value of a portfolio is that it allows you to analyze collectively and manage the items within it toward some particular end result. A portfolio always is defined with some specific purpose or objective in mind. This guides how you select the subjects it will contain. Using our project examples, a portfolio might be defined to:

- Assemble projects related to achieving a single operating initiative to enable program management
- List potential capital investments so you can compare and select options
- Summarize costs, prioritize work or communicate the overall progress of projects for a specific customer

Similarly, a portfolio of products might be created to analyze and compare how they are performing in a given market, individually and collectively. A portfolio of software applications could be assembled to compare and consolidate those with similar capabilities.

The term “portfolio” originates from the description of a satchel or briefcase used to hold a collection of documents. Artists or writers might group examples of their work into a physical portfolio and adjust its contents depending on the audience. In much the same way, a chef might vary his menu from day to day to take advantage of fresh ingre-

dients. These examples demonstrate the inherent flexibility of portfolios; subjects may be moved in or out of a portfolio depending on the needs of the user and the dynamics of the objective.

When applying portfolio management for business purposes, we group together information about our subjects, creating a virtual portfolio. Modern portfolio management systems provide a means to group different subjects and related information and then display it in various ways that are best suited to the task at hand.

Thus, a portfolio gives us a flexible way to view information about a group of subjects associated with a specific objective in a defined, common and consistent manner.

#### **Enabling decision making.**

Although reviewing a restaurant menu offers some benefit to understand the price range and type of food that is offered, the menu is most valuable when you compare options and actually make a selection. Similarly, viewing information related to a portfolio is useful to assess status and communicate performance, but portfolios are most powerful when you use that information to take positive action. Portfolio management allows you to guide the portfolio of subjects to meet target objectives through active decision making.

Consider a portfolio of personal investments held in a retirement account. The objective is to increase the future value of your assets without unduly jeopardizing current holdings in the process. Merely viewing your portfolio passively informs you of your holdings and market balance. Actively managing that portfolio involves comparing various investments and their performance and risk measures, periodically reallocating assets to maintain market diversity and a combined return that meets your investment goals.

In business, you can apply the same portfolio management concepts to ensure product lines continue to meet market targets, to make personnel

reassignments, to allocate funding to meet competing objectives, or to ensure your project investments will achieve intended business outcomes.

In each case, you group different elements for a common purpose, view information about them in a defined and consistent manner, and use that information to make decisions that actively guide results toward established objectives. With that in mind, a portfolio management system not only allows you to view information, it also provides mechanisms to take action and communicate decisions.

**Managing change.** Business decisions frequently relate to managing some type of a change. These changes can come from internal or external influences. They may involve making sweeping strategic changes in missions, markets or products or initiating incremental adjustments in how the organization operates. These changes can be reactive in nature or represent proactive decisions to move the organization in a new direction.

Different types of portfolios are used to facilitate the cycle of change from inception to results assessment. Even though the objective of each type of portfolio differs and each may be utilized by different constituents, they all share a common basis — they rely upon the same basic types of information to facilitate change management decisions.

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#### **Primary types of portfolio information**

Regardless of the type of portfolio, its subjects or its objectives, portfolios tend to draw upon four common types of information as primary measures: people, money, work and deliverables.

To operate with any efficiency, businesses must make decisions that take into constant consideration the need to maintain balance between demand and capacity. Your markets, products and services, combined with the objectives, strategies and work that you pursue, constitute the primary demands placed upon your organi-

zation. While capacities might include specialized considerations such as production lines or warehouse space, people and money are the universal capacities that you apply to address this demand.

Together, these four types of information cover the majority of significant considerations when making business decisions, from the board room to the boiler room. Of course, you may use other inputs as well, but these four types of information are ubiquitous to almost any situation and reside in every organization to some degree.

Each type of information resides in its own defined structure, often in hierarchical form. For example, basic information about your people is commonly represented by an organization chart. Financial information is often the most highly structured and complete type of information, by virtue of accounting requirements and practices. Other forms of information may not be as rigorously managed or as formally defined, but all are inter-related elements of business. To define these interrelationships in their most basic form, people consume money when they perform work to produce deliverables.

Portfolio management draws upon these information structures so that otherwise isolated types of business information can be analyzed collectively using a number of different views. The value of this is that it helps to identify and account for the inherent interdependencies between various forms of demand and capacities. This reduces the potential for business decisions to result in unintended consequences, which is an all too common occurrence when only a few types of information are considered from a single perspective.

Portfolios commonly establish one type of information as its subject matter and then draw upon the other types of information to describe them further. For example, a portfolio of different products in a development cycle might include data such as the

work being accomplished to produce them, the expected costs and revenue, and the groups that are responsible for performing the work.

Conversely, a project portfolio could contain information about assigned individuals, a measure of estimated and actual costs, and the projected completion date for each deliverable. At a higher level, a portfolio of business objectives might compare information associated with the markets being addressed, a summary of cost and revenue projections, and the business units that are involved.

These examples also serve to illustrate how different levels of information are drawn upon depending on the requirements of a particular portfolio. Strategic portfolios tend to use summary level information, while execution portfolios typically rely upon more detail.

### **Portfolio management defined and applied**

In an effort to bring a more standardized understanding of portfolio management, consider using the following summary as your working description: The discipline of portfolio management allows you to group together a collection of independent subjects so you can collectively manage them toward achieving a common objective. Portfolios give you the unique ability to gather, present and analyze different types of information from many different perspectives and levels of detail. Depending on the objective of the portfolio, information about its subjects, often related to deliverables, work, people or money, are presented and compared in order to assess performance, drive decisions and take action. Portfolio management establishes a consistent process structure and decision-support framework to enable transparent and trustworthy decision making across many different levels and parts of the enterprise.

With this general definition of what portfolio management is and what it does, we can turn attention to explain

how it is applied in actual practice to address the challenges that were introduced initially.

Applying portfolio techniques to analyze and act on diverse but inter-related groups of information drives alignment between different perspectives within the organization. Because a single common discipline, set of tools and information structures can be applied comprehensively to measure current state operations, set strategy, allocate capacities, select opportunities, execute work and assess actual results, portfolio management becomes a collectively understood and widely applied method of managing information, communicating direction and measuring progress toward meeting change objectives.

Looking at your organization as an interconnected ecosystem that continually evolves as change flows through it helps everyone recognize how their decisions and contributions affect the overall effectiveness of the process. Portfolio management, in its various forms and applications, provides the common mechanism to advance the cycle of change in a highly efficient and focused manner. Note how the portfolio ecosystem relates to facilitating the closed-loop cycle discussed in the introduction.

In addition to establishing tight alignment to defined objectives, when decision makers throughout the organization simultaneously can visualize and manage the key information structures associated with people, money, work and deliverables in real time, they also retain the ability to redefine organizational direction quickly, assess the implications and socialize strategic shifts throughout each affected part of the enterprise. Thus, a comprehensive approach to applying portfolio management provides the mechanism to align and focus the entire organization toward achieving defined business goals, while at the same time providing the necessary flexibility to respond to our constantly changing environments. ❖

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