Get A Grip On Your Investments With Portfolio Management

"Are we doing the right things?"

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How many times have you wondered whether all the work going on in your organization is directed towards moving the business forward? Have you ever asked yourself the questions?

> *"What happens when market conditions change in my sector?"*
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> *"Can I react quickly enough and re-direct my precious corporate resources so that we remain competitive?"*
>
> *"Do I know where my corporate, both fiscal and non-fiscal, resources are deployed?"*

The answers to these questions are not easy to come by. But having fought through the "forest" (in the shape of progress reports, financial summaries, cost estimates, etc.) to see the trees, can you honestly say that all your projects – or, more aptly, investments – move your business forward to achieve its strategic objectives?

We all know that to remain competitive, businesses must introduce change; and we all accept that such "business change" must be managed. But a finely honed and beautifully structured project that doesn't deliver benefits to the business or move the business forward is a waste of an organizations' resources and energies.

So all we have to do is make sure that projects – or, investments – are aligned to corporate strategy. While that may be easy to say, it is far less easy to do. But one way to achieve this goal is by introducing portfolio management disciplines and techniques.

What is portfolio management?

In its simplest terms, portfolio management is the discipline that executives in organizations use to ensure that the correct mix of investment activity is initiated, grouped, funded and managed to identify business risks and deliver true competitive benefit to the enterprise.

With this definition in mind, you have to decide whether your business is ready for portfolio management. If you have asked yourself any of the questions above, and they have rung true for your organization, it is likely that you need portfolio management.

But before these management processes can be introduced, a certain amount of groundwork must be done to establish a baseline of current investments within your organization, against which portfolio management can be applied. It also helps if a business strategy, or defined business aims that your organization is striving to achieve, exist.

For portfolio management to work effectively, a few key concepts must be understood. All investments deal with balancing costs, benefits and risks – so directors should be looking for investments that display three distinct characteristics:

- investments move the business forward, either by increasing incomes or reducing costs
- benefits are guaranteed
- the return on investment is high and immediate

The ideal investment would be one that provided maximum benefits, delivered for negligible costs with a minimum of risk to the business. However, in the real world, one of the first tasks that an organization must perform is development of clear criteria to be used consistently and objectively in selecting investments that deliver a competitive advantage.

The second point to consider is that an investment begins when the idea for an initiative is first thought of – not at that point when IT first get involved. Additionally, the investment doesn’t end when the project team disbands; rather, an investment is complete when the last benefit has been measured and realized. Given this consideration, great thought should be put into how investments are monitored, to ensure that they adhere to the three characteristics described above.

Finally, once strategic objectives are in place, criteria must be established to again be used consistently and objectively to assess whether the investments – and, by this time – portfolios of investments, are aligned to the corporate vision.

A new approach

You will have recognized by now that portfolio management is a paradigm shift – a new approach to introducing business change into organizations. It is about ensuring that "we are doing the right things" and not just "doing things right."

Such a paradigm shift could generate large quantities of data and armies of analysts. Therefore, it is vitally important that an appropriate governance and system be put in place to provide information from this data, thereby enabling executives to direct their organization's valuable resources to the right investments. Furthermore, the efforts required to change the attitudes and behaviours of executives, senior managers, and project/investment managers is not to be underestimated.

Portfolio management is not a complete answer in and of itself. Rather, it is part of an integrated solution that delivers a method that frees executives to direct; managers to manage; and organizations to realise those elusive business benefits that move the enterprise forward to meet vital business strategies.