

Implementing the Project Portfolio

A Vital C-Suite Focus

The
Economist

Intelligence
Unit

Written by The Economist Intelligence Unit.

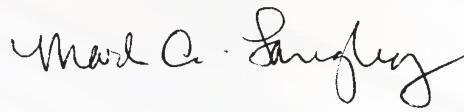
FOREWORD: PROJECT PORTFOLIO MANAGEMENT IS THE GLUE THAT BINDS

When executives use project portfolio management, strategic initiatives have a better chance for success. But are many organizations' leaders missing in action? This concept is explored in the EIU study, *Why Good Strategies Fail: Lessons for the C-Suite*, sponsored by PMI.¹ According to this study, the top reasons for the success of strategic initiatives are leadership support and buy-in.

Yet only half of those surveyed say that strategy implementation as a whole receives appropriate attention from the C-suite. Our Thought Leadership Series on project portfolio management continues the conversation around the critical importance of executive visibility to strategy implementation equal to their participation in strategy development.

Organizations are increasingly recognizing that effective project portfolio management, often referred to as simply portfolio management, helps them make decisions that will set them apart from competitors. Our *2015 Pulse of the Profession*[®] report shows that only organizations with high portfolio management maturity average 71 percent of their strategic initiatives meeting goals compared to only 43 percent of organizations with low maturity. Could this set your organization apart?

This report examines how strategy implementation and portfolio management intersect. The findings identify areas in which effective strategic portfolio management brings value to a company and the essential role of executives in that process. While there is no "one-size-fits-all" answer, this study offers a number of insights that show how portfolio management ties project selection to successful strategy implementation in strong and profitable organizations.



Mark A. Langley
President and CEO
Project Management Institute

ABOUT THE REPORT

This report draws on two main sources for its research and findings:

- A survey of 514 senior executives from a wide range of industries and functions. Forty-nine percent of respondents are C-suite or board members. The others hold senior management positions. Respondents are also globally diverse: 31 percent from North America; 29 percent from Asia-Pacific; 28 percent from Western Europe; and the remainder from the Middle East, Africa, Latin America, and Eastern Europe.
- A series of in-depth interviews with corporate leaders and academics. We thank them for their valuable insights.

Interviewees

- Anthony Bramwell—*Executive Director, Program Management, Ernst & Young, Germany*
- Tanai Charinsam—*Member of the Board, DCON Products, Thailand*
- Carrie Ferman—*SVP Strategy and Business Development, Sony Pictures Television*
- Lawrence Hrebinkiak—*Emeritus Professor, Wharton School, University of Pennsylvania*
- Catherine Killen—*Associate Professor, School of Systems, Management and Leadership, Faculty of Engineering and IT, University of Technology, Sydney, Australia*
- Nirmalya Kumar—*Member of the Group Executive Council Responsible for Strategy, Tata Group*
- Sascha Meskendahl—*Co-Founder, Vendomo*
- Steve Moran—*Managing Director, Project Management Office, JLL*
- Steve Moysey—*Partner and National Leader of Program and Portfolio Management, PwC, United States*
- Brian Scanlon—*Chief Strategy Officer, Thomson Reuters*

EXECUTIVE SUMMARY

Implementing strategy is essential for companies to avoid being at the mercy of outside events or even their competitors. Yet study after study shows that companies repeatedly fail in this area. For example, in *Why Good Strategies Fail: Lessons for the C-Suite*, an Economist Intelligence Unit (EIU) report sponsored by PMI, we found that 61 percent of firms often struggle to bridge the gap between strategy formulation and implementation, and that just 56 percent of strategic initiatives are successful.¹

There has to be a better way. To judge from the current EIU research, an important part of any solution is portfolio management. Sixty percent of companies surveyed believe improving the management of their group of strategic projects is a “high” or “very high priority.” This includes 77 percent of those affording a similar priority to strategy implementation itself. Several experts interviewed for this study go even further: one describes portfolio management as “absolutely critical.” Yet here again, although companies and experts recognize the importance of portfolio management, far too few firms do it well, or even meet their own limited goals in this area.

To examine how well companies fare at portfolio management, as well as the role of the C-suite, this EIU study, *Implementing the Project Portfolio: A Vital C-Suite Focus*, sponsored by PMI, draws on a global survey of more than 500 senior executives from a range of industries, interviews with 10 corporate leaders and other experts, and substantial desk research. Its key findings are:

Three key elements of portfolio management success require C-suite support. Portfolio management requires commitment in order to provide the necessary resources; **cultural change** to eradicate silos within companies; and **effective communication and cooperation** between those who formulate the strategy and those involved in executing it. This can only occur with extensive C-suite engagement.

The C-suite needs to do more of the right things and fewer of the wrong ones. The C-suite needs to focus on certain key areas of portfolio management, notably project selection, high-level monitoring, and evaluation. This takes place at only a minority of companies. Yet C-suite executives need to resist the temptation to micro-manage projects. Companies perform better if others handle the day-to-day tasks.

Deficiencies in project termination and resourcing are common and require C-suite attention. The two most commonly acknowledged weaknesses in the management of strategic projects are project termination (30 percent) and resourcing (24 percent). On average, survey respondents report that one-fifth of current projects should be terminated and that nearly one-half aren't resourced properly, with 29 percent receiving too few resources and 19 percent, too many. Improving these figures will require substantial C-suite efforts. For project termination, this includes a willingness to make the hard decisions to discontinue struggling projects. It also involves creating a culture in which failure is seen as a valuable lesson rather than a wasteful disaster. For resourcing, it means being more active in initial prioritization and resource allocation decisions, so that it is clear which projects are the most important and why.

At a majority of companies, corporate politics impedes portfolio management. Sixty-one percent of respondents say that decisions on strategy implementation involve substantial negotiations between powerful actors within their companies rather than being a largely process-driven matter. Such engagement in the process can have some positive effects. Yet 56 percent of respondents say the degree to which members of the C-suite follow their own interests and pet projects undermines formal portfolio management.

Good data are lacking, but could bring multiple advantages. Only a minority of companies collect key performance indicators (KPIs) to measure key attributes of the portfolio as a whole. Although the specific metrics of benefit to a given company vary, the problem of lack of data does not: 57 percent of respondents say it undermines the effectiveness of management of strategically relevant projects. Interviewees for this study believe data could help with portfolio management in other crucial ways as well, for example, reducing the negative effect of pet projects and helping to reduce the emotional barriers to project termination.

INTRODUCTION

Implementing strategy is a complex issue with many variables, according to Lawrence Hrebiniak, Emeritus Professor at the University of Pennsylvania's Wharton School of Management, and author of *Making Strategy Work: Leading Effective Execution and Change*. "Demands on talent, people, structure, incentives, controls—all come into play," he continues. Corporate executives recognize that they need to improve in this area. In a global survey the EIU conducted for this study, 63 percent of respondents say that improving strategy implementation is a "high" or "very high priority" in their organizations; only 7 percent describe it as a low priority.

A key tool in the journey to improved implementation is strategic portfolio management. For the purposes of our research, we define portfolio management as "the centralized management of one or more portfolios that enables executive management to meet organizational goals and objectives through efficient decision making on one or more portfolios, projects, programs, and operations." Portfolio management includes interrelated organizational processes by which an organization evaluates, selects, prioritizes, and allocates its limited internal resources among projects to best accomplish organizational strategies consistent with its vision, mission, and values.

A significant number of organizations seek to improve their abilities in portfolio management: 60 percent of those surveyed rank improving management of their collection of strategic projects as a "high" or "very high priority." This group includes 77 percent of those who accord the same level of importance to strategy implementation in general, indicating the perceived close connection between the two. Moreover, firms are willing to invest in these priorities: 50 percent of respondents say their organizations will increase investment in strategic portfolio management over the next three years compared with just 12 percent who are certain their companies will not.

Despite the growing focus on portfolio management, executives realize it is not a magic bullet. As Carrie Ferman, Senior Vice President, Strategy and Business Development at Sony Pictures Television, puts it, "If you don't have a clear vision, strategy, and mission in the first place, portfolio management becomes irrelevant." Without meeting these requirements, implementation will resemble a collection of disparate, perhaps conflicting, initiatives, she adds.

Once a strategy exists, though, focusing on portfolio management can improve strategy implementation. For example, overarching portfolio governance can be a crucial support for even basic project management. "It is important to see the management of strategic projects collectively, as a holistic game plan. Many times projects are interrelated," explains Steve Moran, Managing Director, Project Management Office at JLL, a real estate services and investment management group. "If they are seen on an individual basis, the project team does not understand how theirs fits into the entire strategy," thereby lessening the probability of overall strategic success. On the positive side, says Sascha Meskendahl, co-founder of Vendomo, a service for preparing private accommodation for the real estate market, "A portfolio perspective lets you align projects that fit with each other and the overall strategy. In a perfect world, when adding two [such] projects together, you get synergies."

More important for the C-suite, when looking at the big strategic picture, portfolio management becomes essential for aligning strategy and implementation. Steve Moysey, U.S. national leader of PwC's Program and Portfolio Management, explains that without portfolio management, executives cannot "understand why investments are being made across the organization. If you don't, it is impossible to evaluate how you are performing against strategy. It is the only way to get alignment [between strategy and the projects undertaken to put it into place]. Thus, a portfolio perspective is absolutely critical and a strategic advantage if you can get it."

Catherine Killen, Associate Professor at the School of Systems, Management, and Leadership at the University of Technology, Sydney, agrees: "You don't even know what is going on if you don't have a portfolio perspective. Portfolio management capability should be an organizational strength that underpins competitive advantage."

But, adds Dr. Meskendahl, while "extremely important, it is also the tricky part. It is well known in theory and practice how to manage a single project. The portfolio perspective is much more difficult." *Implementing the Project Portfolio: A Vital C-Suite Focus* examines how well companies are doing at this key strategic activity. In particular, it considers the appropriate role of corporate level executives in its execution.

Lessons from the Portfolio Management Leaders

Thirteen percent of respondents (66 in total) in the EIU survey benchmarked their companies as well above average in the management of their portfolio of strategic projects. This does not necessarily mean maturity in portfolio management (although it usually does). Instead, it is a self-assessment of how their firms are doing at portfolio management compared with peers.

Members of this group, labeled throughout this study as "Portfolio Management Leaders," differ significantly in how they practice portfolio management and the results they achieve. These differences will demonstrate both their implications for best practice and the value effective portfolio management can provide to an organization. **i**

EXCELLENCE IS THE EXCEPTION

Executives may indicate that portfolio management for strategy implementation is a high priority, but to date, this has infrequently translated into skilled performance.

"Let's be honest," says Ms. Ferman. "Most companies are not doing portfolio management well, if at all."

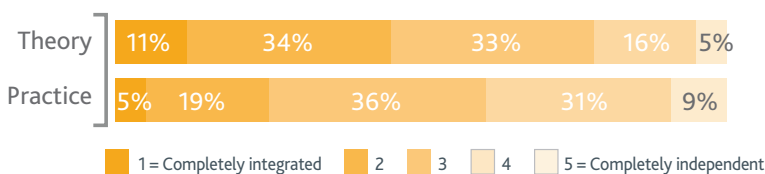
The survey backs her up. Practice in this field is typically immature: only 10 percent of companies tightly align portfolio management with strategy implementation and only an additional 10 percent broadly align it. Far more common is no use of portfolio management at all (19 percent) or an inconsistent application of it to strategy implementation (34 percent). What Tanai Charinsarn, a strategy consultant and member of the board of DCON Products, a Thai concrete manufacturer, says of his experience in Asia-Pacific applies more widely: Companies, especially large ones, may have "a project management office, but its role is often just to make reports to senior management. It is seen as doing something of low value."

Similarly, most companies see "project trees" rather than "strategic forests." Only a minority attempt to balance key attributes of strategy implementation across the portfolio, such as alignment to different strategic priorities (47 percent) and risk and reward (35 percent). Worse still, a large number of firms that do seek such balance fail: only 32 percent of respondents believe their organizations balance the relevant portfolios against strategic priorities; just 22 percent say the same of risk. The latter is particularly dangerous, especially for small companies, notes Dr. Meskendahl. "For startups," he says, "you need to avoid betting everything. If you risk too much, you could risk your whole model." Larger firms also need to consider multiple dimensions of a portfolio, though these can vary by industry or company.

The failure of companies at balancing their portfolios is part of a more widespread inability to execute portfolio management. Respondents frequently admit that their organizations do not meet even their own intentions on managing high-level strategic projects. Forty-five percent say that, in theory, their firms aim to treat such projects

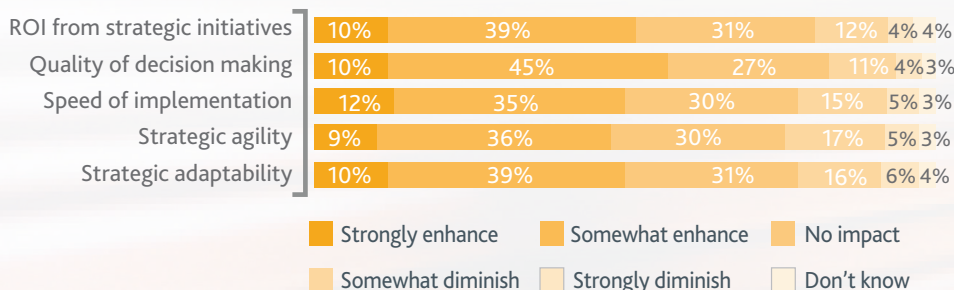
as a completely or largely integrated portfolio, but only 24 percent succeed in practice. More broadly, 47 percent treat their projects in a less integrated way in practice than they do in intention. This comes as no surprise to Professor Killen, who notes that in portfolio management, "sometimes practice varies alarmingly from theory." (See Figure 1)

FIGURE 1
MANAGING HIGH-LEVEL PROJECT PORTFOLIOS



The net results of such weak efforts are apparent. Just 17 percent say the strategically relevant projects at their companies are very well aligned with strategy overall. Sixty-one percent say they are only somewhat aligned. More striking, only around 10 percent believe their formal processes used to manage strategic projects strongly enhance strategic adaptability, agility, speed, or success in implementation. About half the time, the impact is negligible or even negative (see Figure 2).

FIGURE 2
IMPACT OF STRATEGIC PORTFOLIO MANAGEMENT



This disparity between aspiration and outcomes is no accident. Successful portfolio management is difficult to achieve. Although many barriers to success exist, several are of particular relevance to the C-suite, as outlined below.

Commitment

Organizations have to commit to portfolio management, according to Professor Hrebiniak. “That means resources and time. It is not an easy task to manage,” he says. Similarly, Professor Killen recalls that, in her experience, what sets apart leading companies in this area is not “concrete things as much as attitude. It needs to be led from the top.”

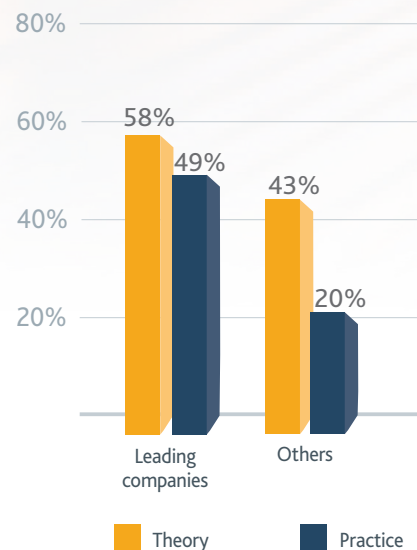
This comes through in our survey data. Portfolio Management Leaders exhibit such commitment and attitude. For example, they are much more focused on the use of portfolio management. Eighty-three percent of executives in this cohort say that it is a high strategic priority, versus 56 percent at other companies. Similarly, 72 percent of the leaders’ group will invest further in this portfolio management in the next three years, versus 47 percent in other firms. Finally, executives at these companies more often aspire to treat strategic projects as part of highly or completely integrated portfolios and are over twice as likely to succeed at doing so (see Figure 3).

These differences arise, in part, because commitment to engage in portfolio management entails struggling with the practical difficulties, thereby acquiring needed skills. Anthony Bramwell, Executive Director, Program Management, at Ernst & Young Germany, says, “The companies doing portfolio management well have been through it a couple of cycles.” Not surprisingly, 42 percent of Portfolio Management Leader respondents say that portfolio management is a core competency or that they use it broadly for strategy implementation, compared with just 16 percent of other firms.

Cultural Change

C-suite support is the only way to overcome cultural barriers to portfolio management. Portfolio management attempts to instill a view that looks at the good of the company as a whole. However, as Mr. Moysey of PwC observes, organizational silos frequently get in the way: “The VP of finance or supply chain will give top priority to their individual business units. Often they have compensation tied to running that silo. It’s difficult for a central function to define where investments are going to be made when executive compensation is tied to specific teams.” Professor Killen adds, “How often do people stand back and say, ‘somebody else needs my budget more?’”

FIGURE 3
ORGANIZATIONS WITH HIGHLY OR COMPLETELY INTEGRATED PORTFOLIOS



C-suite support is the only way to overcome cultural barriers to portfolio management.

Efforts to overcome a function-focused culture can spark negative reactions. “In some organizations,” says Professor Hrebiniak, “managers, especially professionals, love their autonomy. If they see portfolio management as a management imposition, there might be resistance.”

Bridging the Strategic Gap

Several interviewees for this study noted that, in Mr. Moysey’s words, while “the board and C-suite talk in terms of high-level strategy, often something gets lost in translation from the executive suite to the execution layer. Companies need to narrow that gap.” The problem is partially one of exposition. Ms. Ferman believes that if corporate leadership “doesn’t communicate well, it makes portfolio management impossible to do because there is no clear understanding of what the company is trying to achieve.” It may also be a weakness in the strategy itself. Mr. Bramwell says companies often wonder whether, as “strategy is done at a high level, does it provide enough detail for the portfolio or does the portfolio need to provide extra detail?” Senior leadership needs to resolve both of these underlying issues.

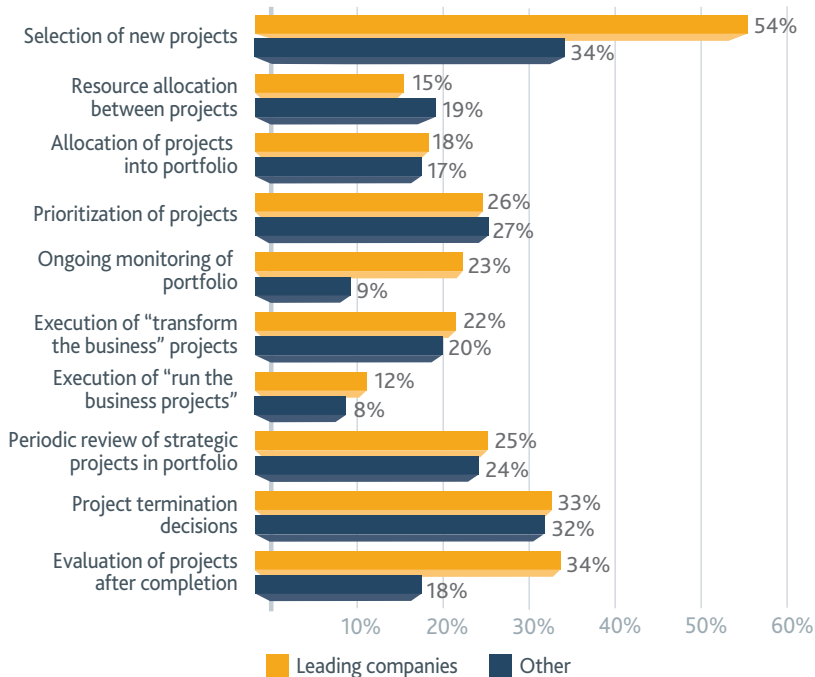
All of the issues referenced above may point to a straightforward call to C-suite action, but little in portfolio management is simple. Corporate executives have an important—too often unfilled—role in portfolio management. Yet the limits of that role are equally important.

FINDING THE RIGHT BALANCE FOR THE C-SUITE

Overall, the C-suite currently does too little on strategic portfolio management. Only 30 percent of respondents say that corporate-level and other senior executives actively engage in portfolio management and view it as an integral part of decision making that guides strategy implementation. Similarly, just 37 percent say that C-suite executives review every—or nearly every—aspect of the strategic portfolio as often as they should.

Portfolio Management Leaders, as a group, exhibit greater C-suite involvement. At 48 percent of these companies, C-suite executives actively engage in portfolio management as part of strategy implementation (versus 28 percent of other firms). And 59 percent of respondents believe C-suite executives at their company review every—or nearly every—aspect of the strategic portfolio often enough, versus 34 percent at other firms.

FIGURE 4
C-SUITE INVOLVEMENT



That said, C-suite participation is far from universal, even among Portfolio Management Leaders. More striking, their greater engagement is tightly focused. The portfolio management areas where C-suite involvement at leading companies differs noticeably from that of others are: selection of projects, ongoing monitoring of the portfolio, and post-project evaluation (see Figure 4).

These data reflect the challenge facing the C-suite in engaging with portfolio management. In some areas, they clearly must take a leading part. “When you are going through approval and evaluation against strategy [in a portfolio], if a C-suite executive is not interested, then you have a problem,” says Mr. Moysey.

Ongoing monitoring can also help the C-suite with its strategic role. Professor Killen explains that, increasingly, portfolio management is not just used as a mechanism to implement strategy. It can also be a way for the C-suite to obtain information on how well an organization is performing and to identify emerging challenges and opportunities. “A lot of the time, we emphasize the top-down aspect of C-suite involvement in portfolio management,” she says. “But without the feedback you can get only from the portfolio perspective, you cannot make sure the strategy itself stays relevant.”

Yet a frequent refrain from report interviewees is that once the C-suite has fulfilled its tightly defined role, these executives need to “step back and let project team members do their job,” to use Mr. Moran’s words, even while still exercising broad oversight and governance. This is not always an easy balance to maintain. Brian Scanlon, Chief Strategy Officer of Thomson Reuters, an information and professional solutions provider, explains that at C-suite discussions, “you have talented managers around the table who tend to want to jump in and fix it” when a problem emerges.

Such C-suite micromanagement is likely to be harmful. It undermines the authority of the project team, turning it into “a toothless lion” that will be reluctant to make decisions, says Dr. Meskendahl.

Moreover, it wastes the time of top executives. As Mr. Charinsarn explains, “Senior managers already have too much on their plates, and many likely haven’t overseen projects for a long time.”

Not surprisingly, a recent study of firms in Austria, Switzerland, and Germany revealed that C-suite engagement with portfolio management yielded results with an inverse U-shape—greater activity initially yielded benefits, but eventually became harmful. In particular, the study found that when companies had competent junior executives and portfolio managers, then the “meddling and micromanagement” of senior managers in steering the portfolio negatively affected portfolio management success. Accordingly, it concluded that “there is an optimal degree of involvement, beyond which an additional involvement of senior managers results in negative effects.” Other research has found the same effect in the area of project termination.²

Professor Hrebiniak describes optimal involvement as a partnership between the C-suite and other senior executives: “You need to have a CEO with a vision to define some broad strategic areas and discuss these with the next level down. Those next-level people should get together to define the key projects. Those projects will need to be approved by the CEO and CFO. There will be some C-suite influence obviously, but the choices are not only with them. Both they and the next level down should be involved.”

What this means for any particular company depends significantly on its structure or its size. Dr. Meskendahl says that at a major multinational company, the C-suite has so much on its plate that its appropriate contribution to portfolio management might be limited to choosing between high-level recommendations or deciding on issues that have escalated to that level. At smaller companies, however, two or three corporate-level executives might be able to participate directly in more of the detailed work of the formal portfolio management team.

Professor Hrebiniak says that for effective implementation, “you have to define the key objectives and projects. That demands that top managers get involved early. It’s one of the first and key decisions they have to make. Then, somebody has to set priorities; if I have a number of projects, I have to determine resource allocation. These decisions also have to be made early at the highest level.” The survey indicates that only at a minority of firms, is the C-suite actively involved in key issues such as selection, prioritization, and resource allocation. Thus, plenty of scope presumably exists for increased positive involvement by corporate leaders in strategic portfolio management before the benefit curve starts back down.

The Benefits of Portfolio Management

As Professor Hrebiniak notes, a portfolio management system “cannot be a be-all and end-all in itself. Where I have seen one work over the years, it has had to show value.” For Dr. Meskendahl, though, “That is the difficult part. Whatever you do in portfolio management, it takes fairly long before you see the result. You always have the pain point where you can’t.”

FIGURE A
BENEFITS OF PORTFOLIO MANAGEMENT



Data on our Portfolio Management Leaders may relieve some of that pain. They indicate that maturity in this area brings a wide range of benefits to organizations. First, it goes a long way in overcoming the troublesome disconnect between vision and implementation: 59 percent of Portfolio Management Leaders say their strategically relevant projects are very well aligned with strategy overall, more than five times the figure for other respondents (11 percent). Similarly, they are far more likely to say their processes for managing strategic projects strongly enhance key strategic capabilities, such as speed and adaptability (see Figure A).

This may explain the notable overlap between leadership in portfolio management and success more generally. All executives surveyed were asked to benchmark their companies on financial performance, operational agility, and ability to implement strategy. When respondents said their firms were well above average in all three, we placed them into a “most successful companies” category. Overall, this cohort comprises just 7 percent of the whole. Among Portfolio Management Leaders, 39 percent made the cut; for the rest of the survey, it was only 2 percent (see Figures B and C).

FIGURE B
PORTFOLIO MANAGEMENT LEADERS

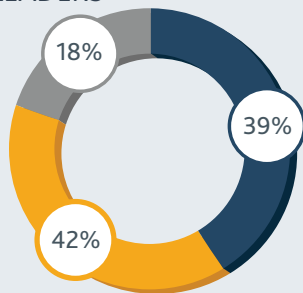
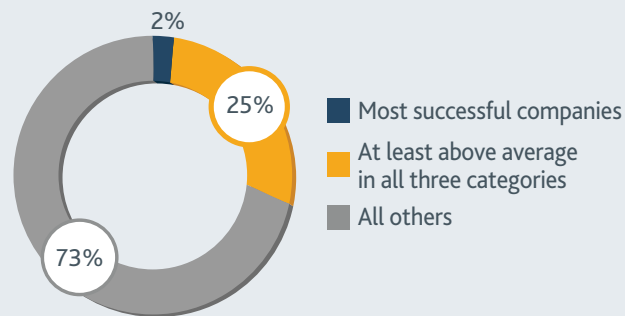


FIGURE C
OTHER COMPANIES



Expanding the criteria to include companies that are “above average” or better in financial performance, agility, and strategy implementation sends just as strong a message. Eighty-one percent of Portfolio Management Leaders pass this test, versus only 27 percent of others.

High-quality portfolio management is part of the competitive arsenal of the large majority of successful companies. It is missing, however, from those that are struggling—a strong sign of its potential value. **!**

DATA AND INFORMATION: TURNING CORPORATE POLITICS INTO INFORMED DEBATE

While judging the correct extent of C-suite activity in portfolio management can be ambiguous, our survey indicates that senior executives who bypass portfolio management often do more harm than good.

Sixty-one percent of respondents say that decisions on strategy implementation involve substantial negotiations between powerful actors within their companies rather than being a largely process-driven matter. As one survey interviewee put it, “If there is a project and it happens to have the CFO’s name on it, it tends to get more resources because people think ‘we can’t let that one screw up.’” Mr. Bramwell says, “Everyone has their pet projects that might often conflict with broader corporate initiatives. I don’t see how that would ever stop: solving corporate politics is a little beyond the scope of portfolio management.”

Such C-suite activity is not always harmful. Mr. Charinsarn describes it as more of a dilemma than a straightforward problem. On the negative side, it makes portfolio management far less transparent. On the positive side, senior executives with an overview of the organization as a whole—not just the project portfolio—bring valuable insights. “Usually C-suite executives have good reasons for what they do,” he says. “But even if they don’t, at the end of the day, they win.”

Similarly, notes Professor Killen, “you shouldn’t discount the intuition [of those at the top of the company]. There are serial innovators, and their ideas tend to work. Successful organizations have processes that work most of the time for most things, but aren’t beholden to them.” Yet, she warns, “Politics on its own is not a good strategy.”

The difficulty, according to respondents, is that, at a majority of companies, politics spills outside of its potentially useful limits: 56 percent of respondents say that the degree to which members of the C-suite follow their own interests and pet projects undermines formal portfolio management. Most of the other respondents were unsure, leaving a mere 17 percent disagreeing.

One tool can help harness C-suite activity for the good: data. “In a negotiation among top management, if you make it transparent, from data-based scoring, which projects naturally make sense, you don’t need to argue over why you should do one or the other,” says Dr. Meskendahl. “It’s difficult for even a senior manager to argue for projects that look unfavorable.”

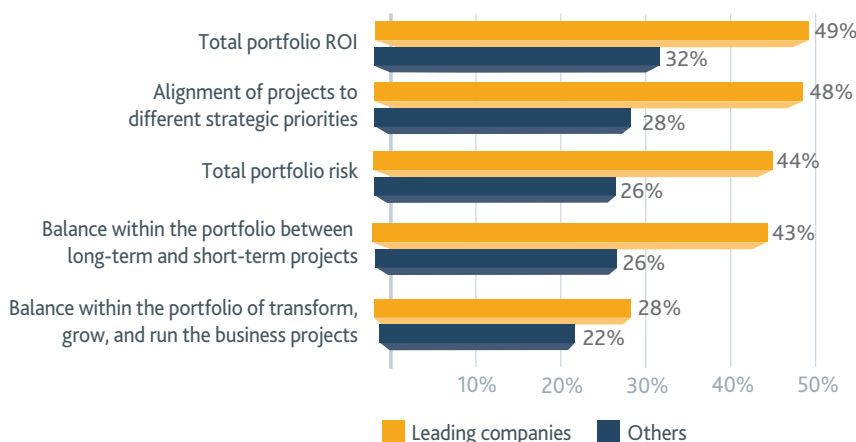
The same can be said for prioritization, resourcing, or termination decisions. Yet, notes Mr. Moysey, “If you don’t have the metrics in place that allow a project or portfolio to be quantified against the strategy, portfolio management becomes a political conversation.”

Survey data support this view. Respondents at firms that collect four or five portfolio-wide key performance indicators are about three times more likely than those where none are collected to say that the C-suite’s pet projects don’t interfere with portfolio management (although this figure is still only 33 percent). Moreover, Portfolio Management Leaders are more active at data collection across the entire portfolio (see Figure 5).

“If you don’t have the metrics in place that allow a project or portfolio to be quantified against the strategy, portfolio management becomes a political conversation.”

—**Steve Moysey**
Partner and National Leader of Program and Portfolio Management, PwC United States

FIGURE 5
COLLECTION OF KPIs



However, portfolio-wide data collection is, again, the exception rather than the rule. Only between 23 percent and 34 percent of firms collect each of the five key performance indicators (KPIs) for portfolios covered in the survey; just one in six collects more than three. “The level of data quality for portfolio management work is not there,” says Mr. Bramwell. “For large portfolios, good documentation [for managing them] generally does not exist.”

This lack of data leads to problems beyond the loss of a potentially useful brake on corporate politics: 57 percent of respondents say it undermines the effectiveness of management of strategically relevant projects. Dr. Nirmalya Kumar, Member of the Group Executive Council Responsible for Strategy in the Tata Group, notes, “You can have a five-year vision, but you need milestones. KPIs can show if you are making progress.”

He adds a caveat: “The indicators need to be clear.” This requirement may not be straightforward, as such information is not readily at hand, says Mr. Bramwell. “Most data gathered is on the current state of the environment, not on how to change things.” Choosing the right metrics, however, is challenging. Mr. Moysey notes a surprising lack of standardization in portfolio management indicators, adding that the “variability, even in the same industry, is vast.”

Companies with mature and robust portfolio management not only measure KPIs, but are constantly reviewing to see if they’re the right ones.

Mr. Moysey explains that in creating such metrics, “you are taking the control of a business unit and putting it into a committee, which will look through a standardized process to evaluate investment. Getting consensus on KPIs to evaluate investment is, therefore, extremely difficult.” He adds that the rapidly evolving nature of many companies, often entering new markets and industries, makes individualized metrics more likely to be of use than generic ones.

Whatever the difficulties, Dr. Meskendahl advises that it is better to plough on. Even when metrics are not perfect (and he believes they never fully are), “I always prefer a rough map to get through the fog than not having any orientation.” Professor Killen goes further. In her experience, companies with mature and robust portfolio management not only measure KPIs, but are constantly reviewing to see if they’re the right ones.

Data, then, can help alleviate the question of C-suite politics and portfolio management, but remains an imperfect tool.

DECISIONS ON PROJECT TERMINATION AND RESOURCE ALLOCATION

Our survey revealed two areas where greater C-suite intervention is still needed, and where even Portfolio Management Leaders differ little from other firms.

Project Termination

A recent academic study on portfolio management and strategy implementation sums up what is at stake: “Portfolio management is successful when ‘you can kill a project’ (explicitly meant, using precise and objective criteria and processes). Strange as it may seem, the answer unveils the essence of portfolio management—to ensure that an organization is doing the right projects right, and the wrong projects wrongly executed can be effectively eliminated from a project portfolio.”³

The area of weakness most commonly cited by respondents (30 percent in total) is project termination. Similarly, one-third of respondents say their firms are too slow to terminate projects that should be ended, and that executives are too reluctant to take action. Thus, respondents believe that 20 percent of current projects in strategic portfolios should be terminated, yet limp on, using up valuable resources. Mr. Moysey believes that all too often, “people would much rather deliver a project not on strategy, over budget, and that does not deliver on expectations, than stop it.”

Already, the C-suite is more likely to be actively involved in project termination decisions (32 percent) than most others. Yet the questions around when to shut down a strategic project involve a high level of business judgment and should be escalated to top decision makers.

Deciding when a project has failed is more art than science. Mr. Kumar notes that, with projects, and strategy more generally, “You don’t know the counterfactual; don’t know what would have happened if you had done something else.” He adds that because many projects involve breaking entirely new ground, some may take a decade or more to come to fruition. Many examples exist of long-term projects that, despite unpromising periods, in the end, had very successful outcomes, making it even harder to know when to pull the plug. Yet, says Professor Killen, “Misplaced optimism, or saying that ‘we are looking for the next big thing, which cannot be predicted,’ may lead to those involved ignoring evidence” of failure. Those making termination decisions must be both visionary and clear-headed.

Some projects involve substantial sunk costs, so continuing becomes the default option, even if it may seem like throwing good money after bad. Mr. Moran notes that, for example, it is harder to terminate a major construction project once building has begun than a small software initiative.

Perhaps the most complex aspect of project termination is a surprisingly human one. Ms. Ferman explains that, even if as a leader, “You see a project that doesn’t make sense, but those involved are passionate, you may let them continue in order to show you believe in them.” Dr. Meskendahl notes that there is almost inevitably a human factor. “If you have people who have invested a lot of time into a project, it makes it difficult to stop. It may sometimes even be better for morale—and therefore the company—to let the project finish.”

These questions are usually difficult and require input from the top. An even more important role for the C-suite can be changing the culture surrounding failure. Too often, notes Professor Hrebiniak, people see termination of a project they’re working on “as cancelling their jobs.” Mr. Moysey adds that the implication is that if a project is stopped, those involved “wasted something.”

The problem begins, says Mr. Charinsarn, with an overly optimistic approach at the start: “Most business planning looks toward a bright future. We don’t really discuss what happens if things don’t go right and where we should turn back.”

Several of our interviewees noted that accepting that all projects are experimental and failure is possible; having clear guidelines for success and failure; and measuring them help take the emotion out of termination. This is consistent with academic research, which reveals that a structured process of project termination correlates with a greater alignment between the project portfolio and strategy.⁴

Such an approach can even help companies become agile innovators, says Professor Killen, explaining that portfolio management, in some industries, can encourage fast failure by basing projects around small experiments designed to increase knowledge incrementally. Ultimately, though, she adds, “You still need to have the will to reallocate resources.”

Resourcing

“I have never seen a company that has more resources than it has ideas for projects,” says Dr. Meskendahl. Money, senior executive time, talent, technical, and other infrastructure—or even the amount of change that employees can accept at a given time—are invariably limited. Not surprisingly, survey data repeatedly point to resourcing as a leading portfolio management issue. Insufficient resources are the biggest barrier to effective management of strategically relevant projects (29 percent), and on average, 29 percent of projects have too few resources given their level of importance.

It’s too simple to blame these problems on the inevitability of finiteness. According to survey respondents, on average 19 percent of their company’s projects are over-resourced, using up assets that could help other initiatives. Unsurprisingly, resource allocation is the second most commonly cited key weakness in portfolio management (24 percent). According to Mr. Bramwell, “It really is the million dollar question.”

Weaknesses in resource allocation arise from deficiencies in portfolio management.

Some of these are at the detailed level; the C-suite should leave these to those implementing the portfolio. For example, Mr. Bramwell says that over-resourcing is often a result of poor scheduling, where “certain projects may not be able to start or make enough progress because of interdependencies with others that have not advanced far enough. These interdependencies are difficult to understand and are where many people go wrong.”

Others deficiencies fall squarely into the C-suite’s lap. As discussed earlier, corporate executives should have a major role in initial project selection, but respondents estimate that, on average, one in five projects at their companies should never have been started. More effective termination could also free up useful resources. C-suite executives may also fail to understand the extent of what they are asking the company to do. “One of the biggest barriers to portfolio management is a full accounting of the resources necessary to implement the strategy,” says Mr. Moran. “Leadership may focus on decisions about capital outlay, but underestimate the people needed.”

The most important C-suite issue is the link between prioritization and high-level funding of projects: the latter is the practical embodiment of the former. “People are drawn to what they believe is important,” says Ms. Ferman. “The most important projects will get resources: the issue is ‘what are the most important projects?’ The underlying problem is being unclear about strategic objectives.” According to our findings, while 27 percent of companies say the C-suite is actively engaged in project prioritization, just 18 percent are that involved in resource allocation. Both numbers need to rise.

C-suite executives shouldn’t micromanage project termination and resourcing decisions. Yet companies need to improve in these areas, and C-suite involvement is a key part of the solution.

CONCLUSION

Strategy implementation is a high priority for companies, and portfolio management is a key vehicle for getting them there. That is the simple part.

Despite a widespread appreciation of the strategic importance of portfolio management, few companies do it well. More do not do it at all when it comes to implementation. For the C-suite, charged with leading the company, this is an area of concern. What to do about it is more complex. Currently, corporate-level executives do too few of the right things and too many of the wrong ones.

While there is no simple formula, this study points to a number of broad lessons about how the C-suite can make a positive commitment to strategic portfolio management:

- *Create and communicate a sufficiently detailed strategy.* Portfolio management cannot work in a vacuum. It requires a comprehensive strategy. The C-suite must not only develop one, it should work with other executives, so that those implementing a strategy understand it.
- *Create an environment supportive of success.* Effective portfolio management requires resources and time, which companies generally provide when the C-suite shows long-term commitment to the practice. Similarly, only the most senior leaders can create a culture that focuses on the good of the company rather than on silos within it. Also, these leaders need to see even a failed project as a potentially valuable learning experience for the company rather than a blot on the records of those involved.
- *Engage, but keep to the big picture.* Besides key decisions and high-level monitoring, the C-suite needs to get out of the way. How this works in practice will depend on the individual organization.
- *Project resourcing and termination require attention.* Few companies handle these areas well. The survey suggests that even at leading companies, part of the C-suite's big-picture role should include more involvement in project resourcing and termination decisions.
- *Make full use of data.* Even partially informed decisions are likely to be more effective than shots in the dark. Collecting and applying appropriate metrics in portfolio management should make it more robust. Such information can play other key roles: moderating the tendency of the C-suite to undermine project management by pursuing pet projects; providing valuable feedback to senior leaders when they need to modify strategic choices or make new ones; and reducing the potential emotional reaction around project termination.

Portfolio Management Leaders have a final lesson: the effort is worth it. Portfolio management can yield substantial strategic and financial value for companies that persevere.

REFERENCES

1. Economist Intelligence Unit and Project Management Institute. *Why good strategies fail: Lessons for the C-suite*. Project Management Institute. 2013.
2. Claus Beringer et al., "Behavior of internal stakeholders in project portfolio management and its impact on success," *International Journal of Project Management*. 2013; Sergey Filippov et al. *The Strategic Role of Project Portfolio Management: Evidence from the Netherlands*. Proceedings of the 7th International Conference on Innovation & Management. 2010.
3. Sergey Filippov et al. *The Strategic Role of Project Portfolio Management: Evidence from the Netherlands*. Proceedings of the 7th International Conference on Innovation & Management. 2010.
4. Natalie Unger et al. "Enforcing strategic fit of project portfolios by project termination: An empirical study on senior management involvement," *International Journal of Project Management*. 2012.

Beijing | Bengaluru | Brussels | Buenos Aires | Dubai | Dundalk | London | Mumbai | New Delhi
Philadelphia | Rio de Janeiro | São Paulo | Shanghai | Shenzhen | Singapore | Sydney | Washington, D.C.

Project Management Institute
Global Operations Center
14 Campus Boulevard
Newtown Square, PA 19073-3299 USA
Tel: +1 610 356 4600 | Fax: +1 610 356 4647
Email: customercare@pmi.org

©2015 Project Management Institute. All rights reserved. "PMI", the PMI logo, "Making project management indispensable for business results." and "Pulse of the Profession" are marks of Project Management Institute, Inc. For a comprehensive list of PMI marks, contact the PMI legal department. BRA-144-2015 (11-15)



*Making project management
indispensable for business results.®*