Insights on governance, risk and compliance

Portfolio management transformation

How to effectively screen and align your program portfolio with strategic objectives

Building a better working world

Contents

This insight on governance, risk and compliance (GRC) is part of a series of boardroom reports focused on program risk management (PRM) — please see ey.com/prm

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Key questions	• Are you doing the right projects?	• How well are your important projects doing? • Are your people aligned toward success?	• Are you ready to run a major project? • Is the project set up for success?
Who would be interested on?	• COOs/CEOs/CIOs who are focused on selecting those projects that are aligned with their organization's vision and best support business success • CFOs who are interested in maximizing the value of their capital investments	• CEOs/COOs who are interested in developing competitive advantage by outperforming their peers in program execution • CIOs who are interested in effectively and successfully managing programs • CFOs who are interested in better cost performance of their organization's programs	• CEOs/COOs who are interested in developing competitive advantage by outperforming their peers in program execution • CIOs who want to understand what drives program success and how to better predict program issues and performance • CFOs who want insight into potential program performance issues prior to budget and time overruns

Do you have a risk-based approach to portfolio management?

Today's economy is increasingly competitive. Market volatility, ceaseless pressure on margins and demanding stakeholders increase the difficulties of thriving in an increasingly interconnected, interdependent and unpredictable global economy. Many organizations have yet to adapt to this new state of the economic landscape. Doing nothing is no longer an option — they need to adjust and take action now.

As a consequence, many organizations are now transforming their businesses to strengthen their organization to save costs, create more client-centricity, restore stakeholder confidence and/or embed new business models. For many organizations, long-term success depends on the success of these transformation programs. To make it more challenging, the margin for error continues to be small, and the environment in which transformation needs to happen continues to increase in complexity.

Organizations — already disoriented by today's market turmoil — need to execute numerous increasingly complex transformation programs and projects in parallel, while at the same time keeping the business functioning. In many multinational organizations, hundreds of such programs and projects are running across different functions and geographies. This complexity causes organizations to struggle with both "doing the right things" and "doing things right." This means that many organizations continue to receive a poor return from their investment in projects, and programs are failing to unlock the full value of their capital investments.

Doing the right things

Organizations continue to struggle with selecting the right programs and projects in which to invest. Selecting inappropriate projects or programs that do not support the corporate strategy will fail to add the expected value to the organization and may limit sufficient capital to do the right things. This is within the scope of portfolio management, as it is concerned with the translation of the strategy into tangible programs and projects. Effective portfolio management provides the organization with a mechanism to make sure it is doing the right things.

Doing things right

Most organizations encounter issues in program and project delivery. Although they may have selected the right project or program in which to invest, ineffective execution of these initiatives causes an inability to realize timely expected benefits and will most likely incur additional costs and schedule delays. As a result, programs and projects are underperforming and require additional resources just when organizations want to spend their hard-earned capital elsewhere. This concern is within the scope of a program risk management function, as it is focused on effective delivery of initiatives to improve execution performance and achieve expected outcomes.

Effective portfolio management provides the organization with a mechanism to make sure it is doing the right things.

Are you doing the right projects?

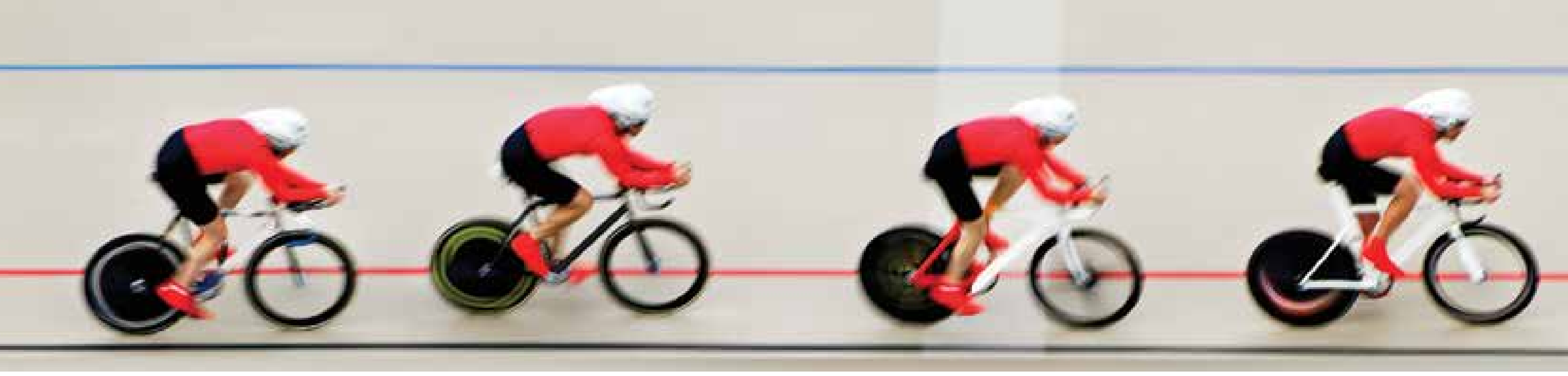
Innovation is how companies stay ahead of their competition; this means that successfully executing innovative projects will drive competitive advantage. However, just successful execution is insufficient — first, organizations must identify and choose the right projects in which to invest.

Organizations execute their transformation programs on three main levels: portfolio, programs and projects. These three levels have distinctly different objectives but should work coherently to deliver transformations effectively.

While project management is focused on delivering a tangible outcome, portfolio management is focused on the decision-making process around which programs and projects should be executed, based on their alignment with the goals and objectives of the organization. Program management is the intermediate layer that is focused on the delivery of business benefits. The objectives for portfolio, program and project management are summarized below.

Figure 1: Portfolio, program and project objectives

Level	Definition	Key objective
Portfolio	A group of programs and/or projects managed in a coordinated way to support business strategy and to deliver benefits in line with strategic objectives	Portfolio management is focused on doing the right things.
Program	A set of interrelated projects managed in a coordinated way to attain the business objectives and benefits	Program management is focused on realizing the benefits.
Project	A project is a temporary endeavor to create a unique product, service or result	Project management is focused on doing the things right.



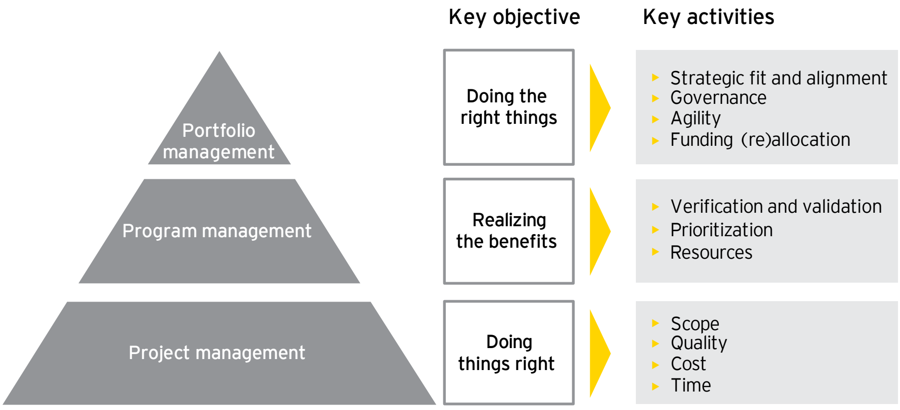
Since the establishment of the Project Management Institute's Body of Knowledge (PMBOK) and the Projects In Controlled Environments (PRINCE2) standards, organizations have made significant investments in project management. As a result, the project management capabilities of these organizations have been strengthened. However, we continue to see a lag in the ability of organizations to adapt their project management approaches to the new complexities of the initiatives in the portfolio.

While some organizations may excel in the execution of project management, they still may not have a mature portfolio management process in place, and this can cause issues with the strategic alignment of programs and projects. The result is that organizations deliver projects on time and within budget, but the value delivered by those projects is not aligned to the organization's strategy.

Investment resources are always limited, so organizations are always keen to overcome such potential value leakage. Portfolio management — focused on preventing value leakage — is therefore getting increased attention within large organizations that currently have poor visibility and control over their project and program portfolios.

> Project portfolio analysis helps to balance and prioritize the portfolio for the greatest overall investment, risk and reward.

Figure 2: Portfolio, program and project management objectives and activities



Portfolio management challenges

Many organizations struggle with keeping their project portfolio under control and relevant. Typical issues faced by organizations include:

- Too many projects running at the same time that, ultimately, do not deliver because of a lack of focus
- Strategic objectives that are not supported by a project or program
- Investments in a project or program that are not aligned to strategic objectives
- Lack of continuous monitoring the portfolio performance and adjustment decisions

A more comprehensive overview of portfolio management challenges is provided below.

Figure 3: Portfolio management challenges

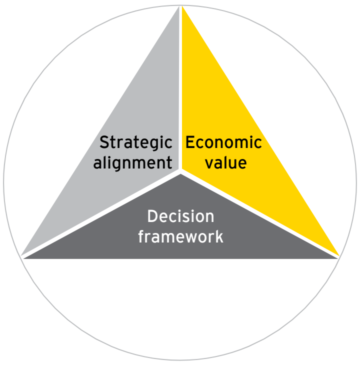
	Portfolio management challenges	Connected risks
Strategy	• Alignment of the portfolio to the corporate strategy is not understood • Too many, often overlapping, projects aligned to one strategic driver (e.g., regulation or cost reduction) • Too many "must have" projects • Ineffective prioritization of projects across the organization	• Failure to achieve the business objectives • Delayed or reduced benefits • Opportunity cost of doing the wrong projects
Governance	• Ineffective approach to stopping poorly performing projects • Business cases not subject to effective scrutiny; benefits are unrealistic • Business-as-usual projects being managed outside the portfolio • Sequencing of projects is ineffective, creating problems in delivery	• Inefficient resource allocation • Extended timelines and missed deadlines • Inconsistent decision-making and issues resolution • Ineffective deployment of strategy
Management and capabilities	• Lack of sufficient experience and capability within portfolio management functions • Project management skills and experience are not seen as critical to the organization's success • Organization's lack of capacity to absorb change	• Inefficient delivery and execution • Inconsistent portfolio management • Poor-quality skills impacting deliverables • Delays in the delivery and increased costs
Data and tools	• Portfolio data is inconsistent across projects, functions and business units • Lack of effective reporting and aggregation tools • Reporting considered ineffective in the eyes of senior management • Reporting seen as burdensome by project teams	• Poor visibility of the programs and projects in the portfolio • Ineffective monitoring and reporting • Poor data quality • Slow identification of key issues

To overcome these challenges, portfolio management needs to be embraced by organizations to achieve three main objectives:

1. Strengthen the strategic alignment of programs and projects to prevent initiatives being undertaken that do not support the enterprise strategy
2. Enhance the overall economic value of the portfolio to improve the return on investment: this step is focused on the tangible business benefits of programs and projects
3. Enhance executive decision-making on programs and projects based on company-specific criteria. This may include looking at how the initiative fits in the defined enterprise architecture, how risks and interdependencies come into play, how the organization deals with compliance initiatives, etc.

A triangulated approach, detailed in the graphic below, enables organizations to ensure optimal value creation from their investments in programs and projects.

Figure 4: Portfolio management objectives



Strategic alignment

Strategic fit. Are portfolios aligned to strategic business objectives?

Strategic alignment. How does the organization ensure consistent top-down alignment (ability to drill down to the lower level)?

Economic value

Governance. How does the organization ensure that project and program benefits and risks are being managed to optimize the overall value creation from the portfolio?

Agility. How do organizations re-align their portfolio when strategic objectives change?

Decision framework

Resources. How do organizations ensure that supply and demand are matched? What is the basis (i.e., business case) for funding decisions, and how is excess program budget identified and reapplied to other programs?

Interdependencies. How are interdependecies managed?

Risk and issues. How are project/program risks and issues, such as budget overruns, factored into the decision-making process?

Portfolio management in practice

The portfolio management process is typically executed only a couple of times a year. More mature organizations in rapidly changing environments perform the portfolio rebalancing process on a much more frequent basis.

Although the process is usually tailored to match the organization's type of business, culture and company size, the steps outlined below are usually identified as the key steps. These steps include:

1. A translation of the strategy into initiatives
2. The identification of programs and projects
3. The building of the portfolio
4. The approval of the portfolio
5. The identification of risks and associated remediation strategies

Although the last step is closely related to the execution of programs and projects — and hence to doing things right — it is closely related to portfolio management and is the linchpin between the two.

While some organizations excel in the execution of project management, many still do not have a mature portfolio management process in place — this can cause issues with the strategic alignment of programs and projects.

Step 1. Translate strategy into initiatives

This first step is focused on achieving strategic alignment: here, the strategic objectives are confirmed and linked to the existing initiatives.

Strategic initiatives — collections of programs and projects that are designed to help the organization achieve its targeted performance — are the means through which a vision is translated into practice. Strategic initiatives are not the same as strategic objectives or strategic goals; they are the vehicle for achieving a strategic goal and are focused on the "how" rather than the "what."

Strategic initiatives are typically corporate endeavors that utilize cross-functional competencies. Although a strategic initiative may coincide with a program, it is possible that it comprises several programs or projects. For example, a strategic objective may be to grow in emerging markets; the strategic initiative defined to enable this is to strengthen account management and distribution channels in these geographies. The related programs and projects may be the rollout of a local supply chain management planning organization, including the rollout of the supporting systems.

The main purpose of this step is to make sure strategic objectives are properly supported by the strategic initiatives. This mapping will identify strategic objectives that are not well supported by initiatives. New initiatives, or changes to existing initiatives, will need to be defined so these strategic objectives are fully supported. This step will also detect existing initiatives within the organization that are not aligned to any strategic objectives.

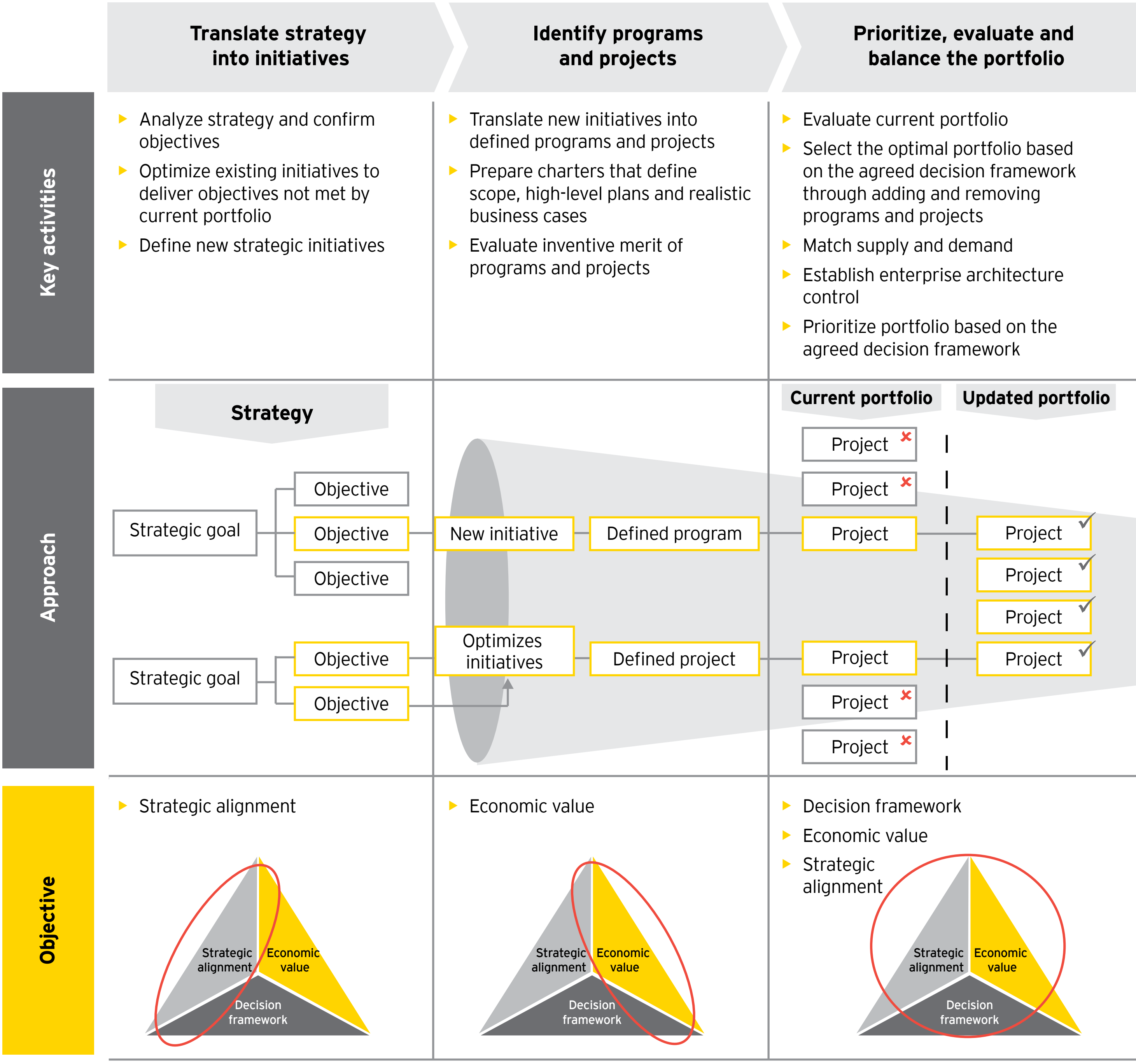
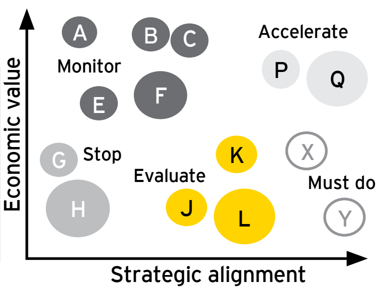


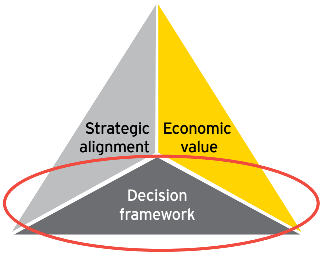
Figure 5: Portfolio management process

Approve portfolio

- Approve the optimized portfolio for deployment
- Consolidate outputs from prioritization
- Perform senior management review and approval



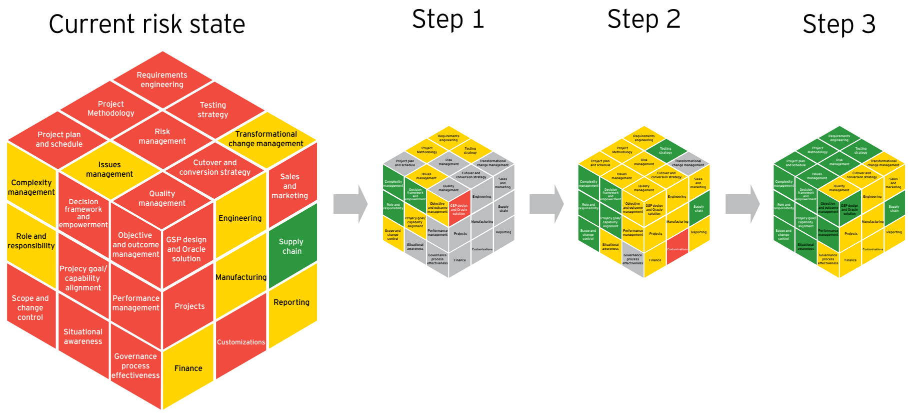
- Decision framework



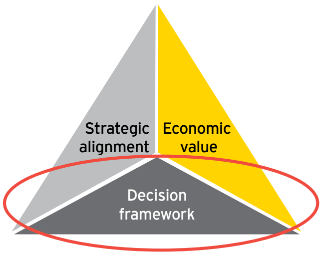
Portfolio risk review and remediation

- Evaluate interdependency risk between program governance, project management and solution factors
- Assess current state
- Identify program and project improvement opportunities
- Identify portfolio optimization opportunities

Sequential remediation plan



- Decision framework



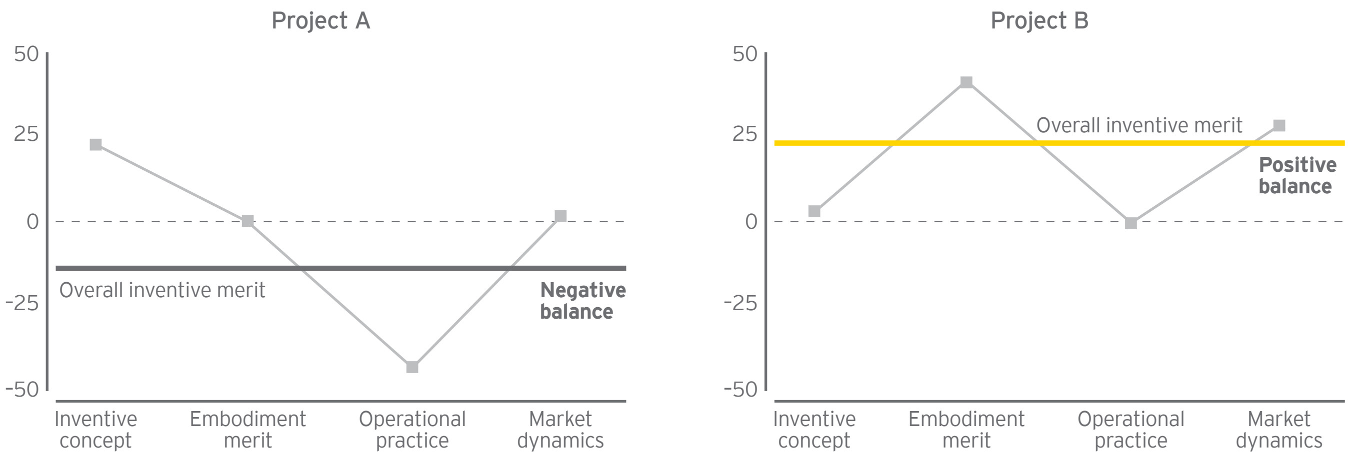
> Your organization should have tools that help determine if your projects are aligned with your strategy and are adding value.

Step 2. Identify programs and projects

This step is focused on ensuring the economic value and strategic alignment of new or existing initiatives. This is achieved by defining the programs and projects necessary to implement the initiatives.

To help screen potential programs and projects, EY has found that a concept called "inventive merit" provides an efficient and effective technique to provide a balanced analysis. This analysis should be undertaken as soon as possible, preferably prior to expending effort to develop a business case. Measuring inventive merit entails the examination of four aspects of the initiative: inventive concept, embodiment merit, operational practice and market dynamics. This balanced view gauges the value, the need (both current and future) and the likely adoption of the initiative based on those four innovation aspects.

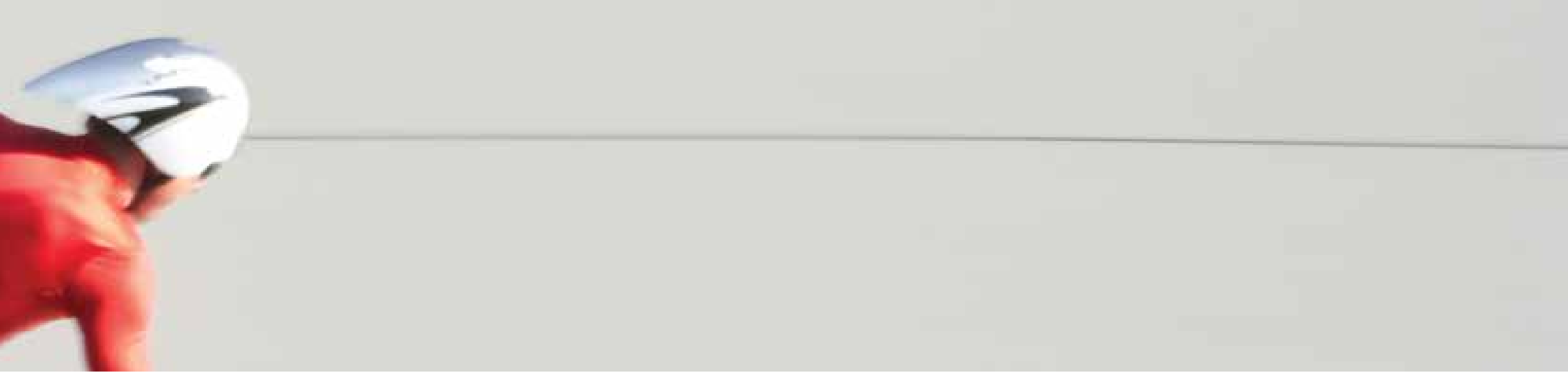
Figure 6: Idea screening analysis



The diagrams above illustrate the concept of a balanced inventive merit view. Project A shows a relatively high inventive concept, which looks appealing based on how most organizations select initiatives. However, taking a full, balanced view, Project A has a negative inventive merit, so it has a lower overall likelihood of success. Project B paints a different picture. It has a relatively low inventive concept, which would normally lead to rejection, based on a narrow view of selecting initiatives. Overall, however, Project B has positive inventive merit, which indicates that it is more likely to be successful in achieving its business benefits.

Multiply this scenario across the hundreds of projects in a portfolio and you quickly realize how projects that ultimately end up in the portfolio can result in an overall sub-optimal investment. Over time, the organization's competitive advantage can be lost.

The clear advantage of implementing this screening in the front-end of the portfolio process leads to more effective decisions in maximizing the return from your portfolio capital investment. This crucial step provides invaluable information about the inventive merit of the project to enable the earliest decision-making in the overall program and project life cycle.



The next activity is to develop, at a high level, the project charters that should include action plans, a defined scope, a business case and a risk assessment. Risk identification and mitigation play an important role in this.

Too often, organizations define the scope of their programs and projects too broadly. As a consequence, organizations may set parameters that are too broadly defined, causing them to miss their target objectives and resulting in an increased likelihood of failure. Therefore, a critical success factor is not to tackle programs and projects that are too large, but to take a phased approach by dividing strategic initiatives into smaller manageable programs that deliver specific, measurable business benefits more in line with the capability and maturity and risk propensity of the organization.

Step 3. Build the portfolio

In the third step, the portfolio is constructed, including proposals to stop, start, accelerate and slow down programs and projects. The organization should use a decision framework — with organization-specific factors — to prepare the portfolio proposals; the decision framework should then be used to select the initiatives that produce the most value and align best to the organization's strategy.

A key input in building the portfolio includes a consolidated overview of all of the organization's programs and projects: this would typically contain information about performance to budget, resource requirements, risks, business benefits, links to strategic objectives and interdependencies. Based on the organization's defined decision framework, the organization should now be able to select and prioritize programs and projects that suit it best.

The first key criterion in the organization's decision framework is the amount of required resources. In order to deliver on the portfolio, the organization needs to make sure that enough resources are available to execute the programs and projects. In most situations, organizations have a tendency to push more projects into the pipeline than the organization is able to handle, resulting in "project gridlock," in which the organization faces compounding project or program delivery issues, a lack of progress and poor outcomes. To overcome this issue, organizations must put a mechanism in place to match supply and demand.

Another common criterion in use by organizations is the management of interdependencies. Organizations use controls, such as enterprise architecture, to define the current state and the desired future state in terms of systems, business processes and other important organizational aspects. This allows them to assess whether the programs and projects fit into the vision and to detect and manage interdependencies. While portfolio management is focused on the process and governance, enterprise architecture provides the required content.

Another key criterion is risk. Firstly, an organization's portfolio should be aligned to the organization's risk appetite to prevent the organization from implementing projects or programs that would impose too much (top-down) risk. Secondly, risks and issues detected (bottom-up) within the programs and projects must be taken into account in starting, stopping or accelerating programs and projects.

Based on the organization's defined decision framework, it should now be in a position to select and prioritize all the programs and projects.

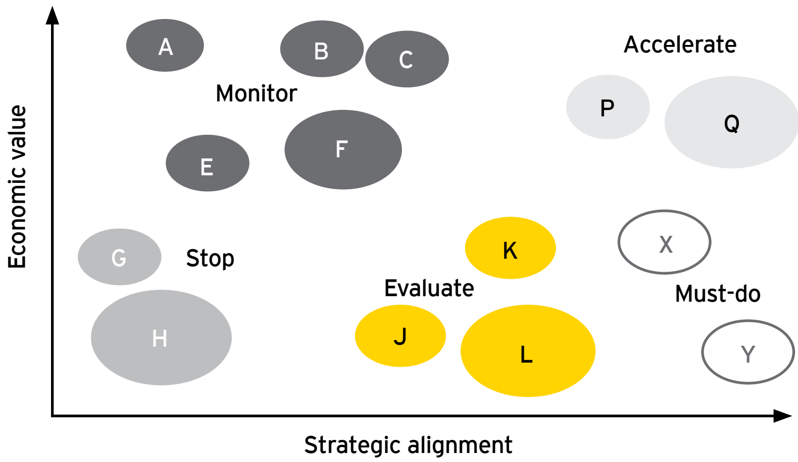
The key to effective idea screening is to prevent superficially appealing projects from being accepted and to avoid rejecting projects that truly have a higher likelihood of success.

Step 4. Approve the portfolio

Organizations typically invest a substantial percentage of their revenue in programs and projects. For this reason, the organization's executive management should formally approve the portfolio and ensure alignment when making trade-off decisions.

The diagram below shows a portfolio value map, including a proposal for those projects that should be stopped (low economic value and low strategic alignment), those to accelerate (high economic value and high strategic alignment), those that the organization must do (low economic value and high strategic alignment), those that need to be monitored (high economic value and low strategic alignment) and those to evaluate (medium strategic alignment and low economic value). The bubble size and color typically represent budget and risk/status to provide executives with the additional information needed to support their decision-making process.

Figure 7: Portfolio value map



Step 5. Portfolio risk review and remediation

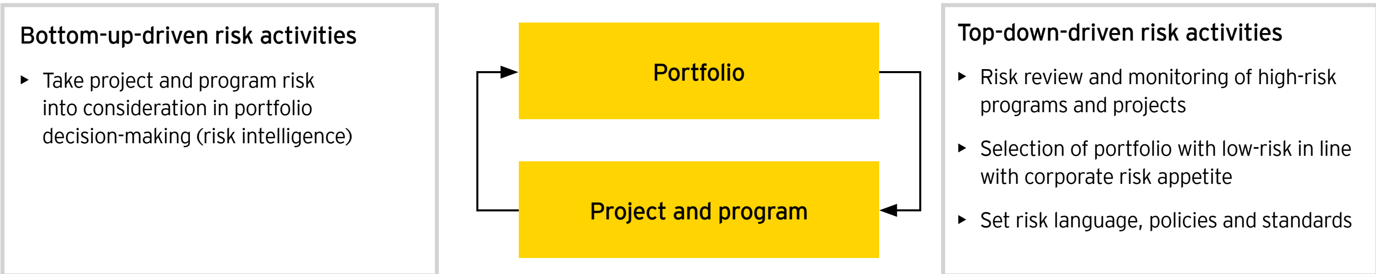
This fifth step provides the link with the execution of projects and programs. Here, programs and projects are reviewed in accordance with their progress, risks and issues, which enable enhanced insight and decision-making. In practice, the programs most closely monitored are those with the highest economic value or those that present the greatest level of risk to the organization.

The information retrieved from these risk reviews allows an organization to include risk feedback into the portfolio process (step 3) and to take corrective actions on troubled programs. Organizations need to focus their risk management efforts on the risks that matter: large, complex and risky programs should therefore receive the most attention in an organization's efforts to control its enterprise transformation. A holistic portfolio approach enables an organization to do exactly this — by having a centralized overview of all ongoing initiatives, executives will be able to monitor the key risks and factor these into their decision-making or consider these as part of their decision-making process. The key to this step is that executives can proactively take action on key risks.

There is a need to distinguish between bottom-up- and top-down-driven risk activities:

- **Top-down-driven risk activities** include program risk management and a review of programs and projects that impose the largest risk to the enterprise. Portfolio risk management provides a similar approach to risk as enterprise risk management by integrally managing operational, legal, compliance and financial risks. The output of this activity could, for instance, be an internal or external audit plan for monitoring the programs and projects contained in the portfolio.
- **Bottom-up-driven risk activities** are focused on taking relevant risk information into account in executive decision-making. "Risk intelligence" is achieved by having a consolidated overview of classified risks, issues and interdependencies within the most important programs and projects. Executives armed with this knowledge are able to include this information in their portfolio rebalancing decision-making process.

Figure 8: Risk activity overview



Questions for the C-suite

- Are decisions around the allocation of capital and resources strategically aligned to the organization's value chain challenges?
- Is there alignment throughout the organization regarding initiative selection, prioritization, asset classes and funding?
- Is the allocation of funds aligned to budget planning and constraints?
- Is there awareness of competing priorities that impact the same core business processes across the provider value chain?
- Is there confidence that the organization has the capability and capacity to deliver all initiatives being planned?
- Have all initiatives been delivered within the expected timeline and budget and have they achieved the expected benefits?
- Is there visibility into accurate and timely initiative performance information?

If one of these questions has been answered with "No," it is time for you to take action.

Portfolio management transforms projects

In this report, we have presented a risk-based approach to high-performing portfolio management. An integrated approach to managing portfolio risk provides executives with a powerful asset — they will be able to take project and program risk into account when managing their portfolios.

Organizations that have implemented effective portfolio management have seen improvements in the strategic alignment of initiatives, return on capital invested, resources allocated more efficiently, and increases in performance visibility. Companies that can successfully execute on their strategic initiatives gain a competitive advantage in the marketplace.

The next steps that an organization can undertake depend on its current portfolio process and maturity. These could include:

1. Review the corporate strategy and transformation objectives
2. Translate the strategic objectives into initiatives
3. Prioritize, evaluate and balance strategic initiatives into programs and projects by means of project charters
4. Translate strategic initiatives into programs and projects
5. Evaluate current project and program portfolio
6. Optimize portfolio by adding new programs and projects, based on enterprise architecture alignment, risks, business case and other criteria
7. Balance demand and supply, and potentially stop programs and projects that may cause gridlock to the organization
8. Prepare a consolidated overview of projects to monitor, evaluate, accelerate, stop and "must do" to support executive decision-making
9. Perform a risk review of high-risk and "must-do" programs and projects
10. Use risk and issue information to support executive decision and portfolio optimization

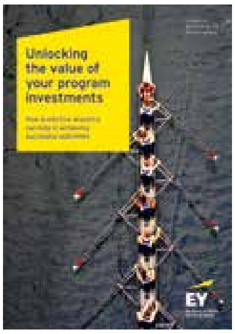
How can EY help?

Our project portfolio management approach takes a holistic view of your organization's overall business strategy, helps gain control of investments and helps to deliver meaningful value to the business. It focuses on the entire life cycle of the project portfolio from planning to monitoring and on to delivery. This includes three major processes — **portfolio strategy, planning** and **portfolio operations**: all three processes center around both value alignment and identification within the business, as well as value realization within your IT and operations functions.

Our holistic approach will enhance your organization's chance of success in its transformation efforts because it will help the organization to focus on the risks that matter. In addition, this approach will help enable a common risk language within programs and projects, thereby strengthening your organization's risk culture.

Want to learn more?

Insights on governance, risk and compliance is an ongoing series of thought leadership reports focused on IT and other business risks and the many related challenges and opportunities. These timely and topical publications are designed to help you understand the issues and provide you with valuable insights about our perspective. Please visit our *Insights on governance, risk and compliance* series at ey.com/grcinsights.



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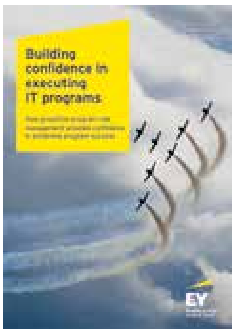

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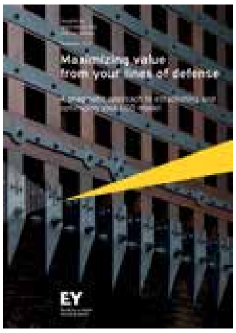

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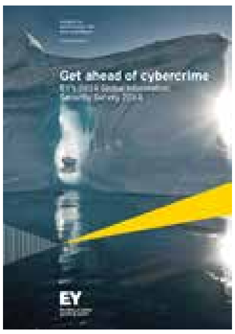

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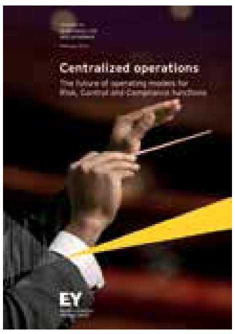

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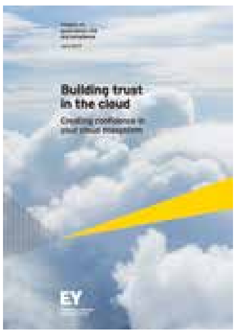

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If there's no reward without risk, can risk be a good thing?

Every challenge and every opportunity an organization faces today demands change. And with change comes risk. Some risks you can see, some you can predict, some you can plan for, and some you can't.

For EY Advisory, a better working world means solving big, complex industry issues and capitalizing on opportunities to help deliver outcomes that grow, optimize and protect our clients' businesses.

Our understanding of the issues around risk — about the risks you can see as well as the ones you can't — inspire us to ask better questions. By teaming globally with you we co-create more innovative answers that help you see risk management as a means to accelerate your performance.

Together, we help you deliver better outcomes and long-lasting results, from strategy to execution.

The better the question. The better the answer. The better the world works.

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In a world of unprecedented change, EY Advisory believes a better working world means solving big, complex industry issues and capitalizing on opportunities to help deliver outcomes that grow, optimize and protect clients' businesses.

Through a collaborative, industry-focused approach, EY Advisory combines a wealth of consulting capabilities – strategy, customer, finance, IT, supply chain, people and organizational change, program management and risk – with a complete understanding of a client's most complex issues and opportunities, such as digital disruption, innovation, analytics, cybersecurity, risk and transformation. EY Advisory's high-performance teams also draw on the breadth of EY's Assurance, Tax and Transaction Advisory service professionals, as well as the organization's industry centers of excellence, to help clients deliver sustainable results.

True to EY's 150-year heritage in finance and risk, EY Advisory thinks about risk management when working on performance improvement, and performance improvement is top of mind when providing risk management services. EY Advisory also infuses analytics, cybersecurity and digital into every service offering.

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The better the question. The better the answer. The better the world works.

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Our Risk Advisory Leaders are:

Global Risk Leader		
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