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Is your portfolio management process a funnel or a tunnel?

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1. INTRODUCTION

The one thing I want you to remember today is "portfolio management is a coordinated collection of strategic processes and investment decisions that together enable the most effective balance of organizational change and business as usual" (Jenner and APMG-International 2014, p.273). That is, portfolio management is an active process that involves perpetually selecting, categorizing, prioritizing but most importantly, regularly 'balancing' the portfolio of programmes, projects and other work. This occurs within the organizational constraint of available funds and people (Dooley 2014, p.201).

A filtered funnel is a useful analogy to illustrate an effective portfolio management process. It is where all spending proposals and inflight initiatives flow through from the top of the funnel to the narrow tube at the bottom to progressively assess if an investment is worthy to both start and continue until successful transition into operations. As such, each investment should be subject to a stage gate review process as it slowly moves through each of the portfolio management practices based on the iterative development of the business case from the strategic outline case, outline business case and full business case (HM Treasury 2018, p.12-14).

Each initiative should potentially travel through the funnel multiple times to regularly re-assess continued business justification against new proposals and a changing environment in readiness for delivery. The corporate portfolio should therefore be periodically balanced, for example, on a quarterly basis regardless of whether a spending proposal is at strategic outline case, outline business case or full business case.

It also helps stop what Tim Banfield (former Director, UK National Audit Office) calls the conspiracy of continuation, where spending proposals are rarely stopped once they are started (Jenner and APMG-International 2014, p.225). Most people and organizations behave as if they have no choice but to push on, even past the point where they put themselves at more cost or risk than they would have accepted at the start (Flyvbjerg & Gardner 2023, p.26).

This approach enables all spending proposals to be tracked and managed to minimize the impact of too much change on the organization. However, Hollister and Watkins (2018, p.4) say "many organizations lack mechanisms to identify, measure, or even manage the demands that initiatives place on the people who are expected to do the work". As such, the portfolio management process should continuously narrow down a large number of spending proposals, both pipeline and inflight, into a smaller set of viable (cost), achievable (risk) and desirable (benefits) investments that the organization as a whole can successfully deliver.

The Burning Platform

The portfolio management process should never resemble a tunnel where every spending proposal that enters is subsequently approved and exits without fully understanding the cost, time, scope, risks, quality (criteria) and expected benefits prior to full funding and resource allocation. Most organizations recognize the importance of making tough choices, but only a rare few have the gumption to stop an ill-conceived spending proposal and/or an under-performing initiative at the start of a new portfolio management process.

Sanwal (2007, p.28) says "if every [programme, project and other work] submitted gets reviewed and ultimately funded, an organization's corporate portfolio management process is not an investment decision-making discipline; rather it is a bureaucratic exercise that adds little to no value." That is, the funnel has now effectively become a tunnel. This can cause a portfolio delivery bottleneck and untold organizational chaos since more work is authorized than available people have capacity to implement. Hollister and Watkins (2018, p.3) found that "leaders are sometimes unaware of all the initiatives under way and their impact on the organization".

> These mistakes severely limit the effectiveness of portfolio management and the organization's ability to ensure they are selecting the most beneficial investments that they can deliver.

Here are some common mistakes with portfolio management:

- Applying the portfolio management process only once a year (rather than quarterly) or worse, only to a segment of the portfolio i.e. new proposals.
- Focusing exclusively on the prioritization activity that ranks initiatives instead of the active balance activity which ensures that the corporate portfolio is optimised for successful delivery.
- Starting the entire pipeline at once without taking into consideration the number of inflight initiatives, their performance to date, and the resources (both funds and people available) to deliver the corporate portfolio.
- Not using work-in-progress limits to set the maximum amount of work that the corporate portfolio can actually deliver, e.g. work-in-progress limits allows the organization to manage the work in line with capacity.
- Not adopting a staged release of funding by gated review process. That is, where incremental rather than one-off investment decisions are made on each initiative based on the delivery confidence assessment for likelihood of successful delivery, particularly benefits realization.

These mistakes severely limit the effectiveness of portfolio management and the organization's ability to ensure they are selecting the most beneficial investments that they can deliver.

> A once-a-year portfolio management process means you are not ready to react to a changing digital environment and hence the flexibility, adaptability and accountability of your organization is minimized.

Why It Matters

The purpose of portfolio management is to select only those spending proposals that meet certain investment criteria using multi-criteria analysis and to say "no" to the others (Oltmann, 2008). Clark (2021, p.19) says to recognize that saying "yes" to one thing inevitably means saying "no" to something else. Like Apple CEO Tim Cook said "*we believe in saying no to thousands of projects so that we can really focus on the few that are truly important and meaningful to us.*" That is, the ones that contribute to new strategic objectives which we can confidently deliver on time, within budget and on benefits.

According to Sanwal (2007, p.28) the filtered funnel analogy means, for example, that if "100 spending proposals are submitted each financial year, only a percentage should get funding" based on the number of available people resources and their capacity to deliver. However, a once-a-year portfolio management process means you are not ready to react to a changing digital environment and hence the flexibility, adaptability and accountability of your organization is minimized (Sanwal 2007, p.16). Hence why an active corporate management process (or filtered funnel) can only be achieved when all spending proposals are constantly evaluated as a whole based on performance to date (Sanwal 2007, p.15).

An effective corporate portfolio management process requires rigor in all investments since capital and operational expenditure must be evaluated to ensure investment data is accurate and realistic (Sanwal 2007, p.15 & 76). Naturally, decision making requires hard choices to be made. That is, to stop both poorly conceived spending proposals and inflight initiatives, particularly those that do not demonstrate strategic contribution or likelihood of benefits realization. It's also a sure-fire way to let people know that the organization is serious about funding investments on a meritocratic basis (Sanwal 2007, p.15).

Think About the Business Case

The iterative development of the programme or project business case process is crucial to the portfolio management process.

The iterative development of the programme or project business case process is crucial to the portfolio management process. It's a 'thinking exercise' that should result in a well scoped and planned investment supported by a document that provides 'the repository for the evidence base' in support of effective decision making. For this reason, the development of a business case must never be approached as a 'writing' exercise and a hurdle to jump for funding approval (HM Treasury 2018, p.16). When organizations ignore this advice, the portfolio management process becomes a tunnel where everything that enters simply exits with funding approval.

Despite this, Fujitsu Consulting & Thorp (2012, p.28 and p.94) found that most organizations adopt a one-off business case approach to launch projects. This is often followed with a laser focus on project delivery rather than on the projects' contributions to new strategy objectives and benefits realization. This silver bullet thinking to use one-off business cases to support investment decisions is often based on incomplete data and untested assumptions about the future business environment. This is why there will always be a time period over which it is impossible to forecast with any degree of reasonable accuracy or beyond the planning horizon.

The challenge with a one-off business case approach is that it makes a rough stab at forecasting actual costs, timeframes and expected benefits, wins funding approval and then — frankly — forgets the forecast as quickly as possible (Fujitsu Consulting & Thorp 2012, p.28). By approving projects this way, the portfolio management process embraces a "rite of passage" approach and moves away from rational decision making (Fujitsu Consulting & Thorp 2012, p.13). Initiatives are often launched without having sufficient funds and people resources dedicated to them (Hollister and Watkins 2018, p.4). It highlights an organizational need to re-apply the prioritization process on the full business case prior to full funding allocation, where 'unknown unknowns' should no longer exist.

Think Slow, Act Fast

Spending proposals are often started by jumping straight to a solution, even a specific technology, without understanding the business problem it's trying to solve.

Ask yourself, what if the only hurdle an initiative must clear to receive continued investment is to achieve a rubber stamp of approval rather than validate the benefits to be realized? Eventually an organization must focus on the hard economics of every spending proposal or the bang for your buck (Flyvbjerg and Gardner 2023, p.43). If "think slow, act fast" is the rhythm to success and the wise approach to portfolio management, why do so many organizations do the exact opposite? (Flyvbjerg & Gardner 2023, p.22).

The challenge is to take a small number of possibly game-changing ideas at a time that can transform the organization and ensure that they emerge from the pipeline stronger (Nagji and Tuff 2012). This is why the iterative development of the programme or project business case - from initial options analysis to investment appraisal and finally portfolio prioritization - plays a critical part to the portfolio management process (HM Treasury 2018).

However, spending proposals are often started by jumping straight to a solution, even a specific technology, without understanding the business problem it's trying to solve. Flyvbjerg and Gardner (2023) say "that's the wrong place to begin. You want to start by asking questions and considering all alternatives. At the outset, always assume that there is more to learn. Far too many programmes and projects proceed on the basis of undiscussed assumptions. That's dangerous. As the old adage has it: "Don't assume. Verify."

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Plan to Succeed

To improve the portfolio management process, Smallwood (2020) advises “*we must invest time in thorough up-front planning to ensure that projects are deliverable and affordable before commitments are given. If we invest time and energy in setting projects up for success, we can obtain a clearer overview of the project lifecycle and make any required design changes when the cost of making these changes is still relatively low. Whilst successful project initiation can take more time at the start, this will be repaid many times over later on in delivery*”.

Flyvbjerg and Gardner (2023, p.61-62) advise “*it’s a serious mistake to treat [portfolio, programme and project] planning as an exercise in abstract, bureaucratic thought and calculation*”. This is because people are terrible at doing things right the first time. But we’re great at tinkering. Wise planners make the most of this basic insight into human nature. Jenner and APMG International (2014, p.116) states that planning is *“not simply form filling, but a mindset that drives accountability for delivery. Since the focus is more on planning as an activity than plans as documents”*. It’s why, “good [portfolio] planning is the range and depth of the questions it asks and the imagination and the rigor of the answers it delivers, particularly why the organization is investing in the project (Flyvbjerg and Gardner 2023, p.46-47).

Putting up the Fight

"To fight initiative overload requires the will and the discipline to make and enforce hard choices”.

Hollister and Watkins (2018, p.3) advise that to “*fight initiative overload requires the will and the discipline to make and enforce hard choices*”, particularly to turn the tunnel into a filtered funnel. Like Marty Bird’s character in the Ozark TV show said, “*people make choices [and] choices have consequences*”. To slow down the tunnel superhighway, organizations must:

1. Get a true count of current initiatives across the corporate portfolio to see if your organization is suffering from overload.
2. Assess all the initiatives currently under way. For each one, identify the business need, the required budget, the head count allocation, and the business impact.
3. Have senior leaders work together to establish priorities in an integrated way. The discussion must be driven by the top leadership team and informed by candid feedback from below to ensure the best balance of initiatives.
4. Implement a sunset clause for each initiative, identifying an end date for funding and a head count allocation, so that projects do not consume resources year after year unless they are making a significant business impact.
5. In annual strategic portfolio planning, require each initiative to reapply for funding and other resources. Mandated business cases should continually demonstrate the value to the organization.
6. Strongly communicate to the rest of the organization that stopping an initiative doesn’t mean that it was a failure or lacked merit. Emphasize that there’s simply a limit to how many great ideas the organization can launch.

> At its core, portfolio management is about the choices relative to circumstance. It should be either a Hell Yes or No. The hard part is learning how to say no.

Remember, if there is one thing to take away a "*portfolio management process is not static; as such the portfolio composition needs to be continually adjusted to take into account changes in the environment and better knowledge of investment opportunities. Portfolio management means active involvement, not just picking the expected winners and then going to sleep*" (Fujitsu Consulting & Thorp 2012, p.81). The term filtered funnel indicates the need to have a balanced portfolio in terms of timing, coverage of all strategic objectives; impact across the business; stage of initiative development, overall risk: return profile; and available resources (Jenner and Kilford 2011, p.62).

There is simply no substitute when hard choices need to be made about linking the portfolio with the strategic objectives, on one hand, with a clear intent for each initiative and the associated funding and people resources required, on the other. At its core, portfolio management is about the choices relative to circumstance. It should be either a 'Hell Yes' or 'No'. The hard part is learning how to say no as there is no in between particularly as every portfolio should be balanced (Sivers 2022, p.13).

Like George (2017) advises all spending proposals present the portfolio investment committee with a difficult dilemma. That is, to shift their attention from 'run' the business to pursuing 'grow' and 'transform' activities as an organizational priority to maintain competitive advantage. Simply put, with every spending proposal that is considered part of a portfolio, an organization must have both money and people to move forward. If you say yes to every programme, project and other work, you have a tunnel instead of a filtered funnel.

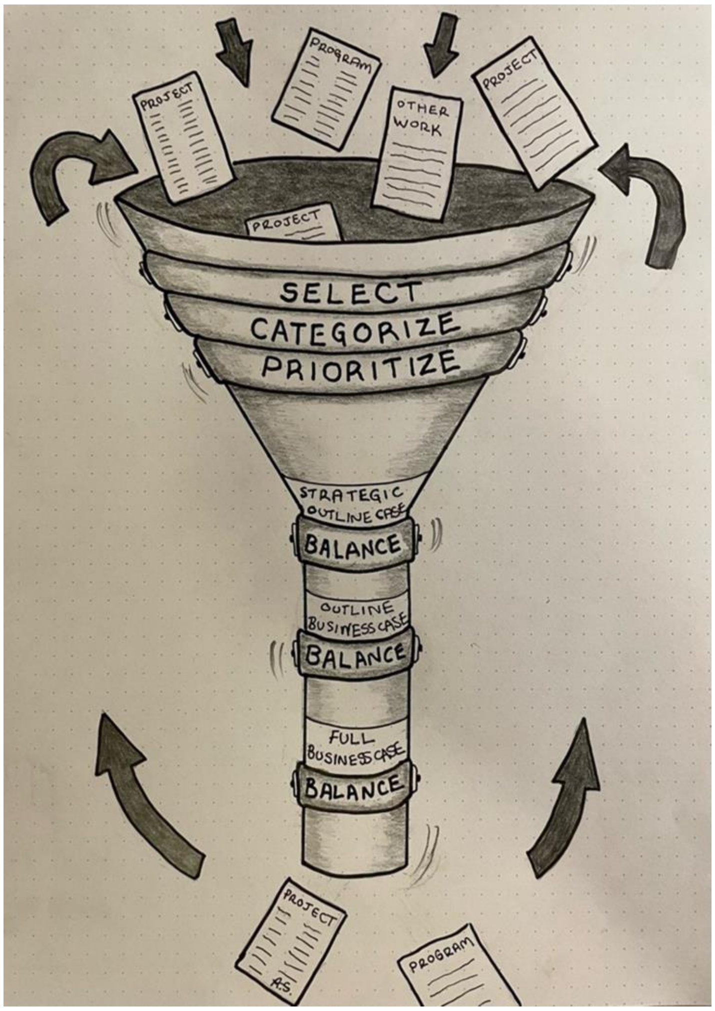

Illustration by Alesandra Sainty

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Milvio DiBartolomeo is a Director in the Queensland Public Sector who specializes in portfolio, program and project management including strategic workforce planning, benefits management, governance, assurance and risk management. Over his project portfolio management career, he has worked on a number of transformational change ICT initiatives across the entire programme and project lifecycle as a business and process analyst, software tester and project manager. He has spent the past 10 years in a hub and spoke PMO model in various roles as a Portfolio Manager, Capability Support Manager and a Workforce Planning Manager.

With a lifelong passion for learning, Milvio is the first person in the world to simultaneously become a Strategy Implementation Institute Professional, registered Better Business Cases Practitioner (at trainer level) and Managing Benefits Practitioner (at trainer level). His credentials also include a Bachelor of Commerce (Industrial Relations, Organisational Change and Human Resource Management) and Management of Risk v4, Management of Portfolios (MoP), Portfolio, Programme and Project Office (P3O), Managing Successful Programmes (MSP) 5th edition, PRINCE2, PRINCE2 Agile, AgileSHIFT, ICAgile, International Software Testing Qualifications Board (ISTQB) software testing and ITIL.

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