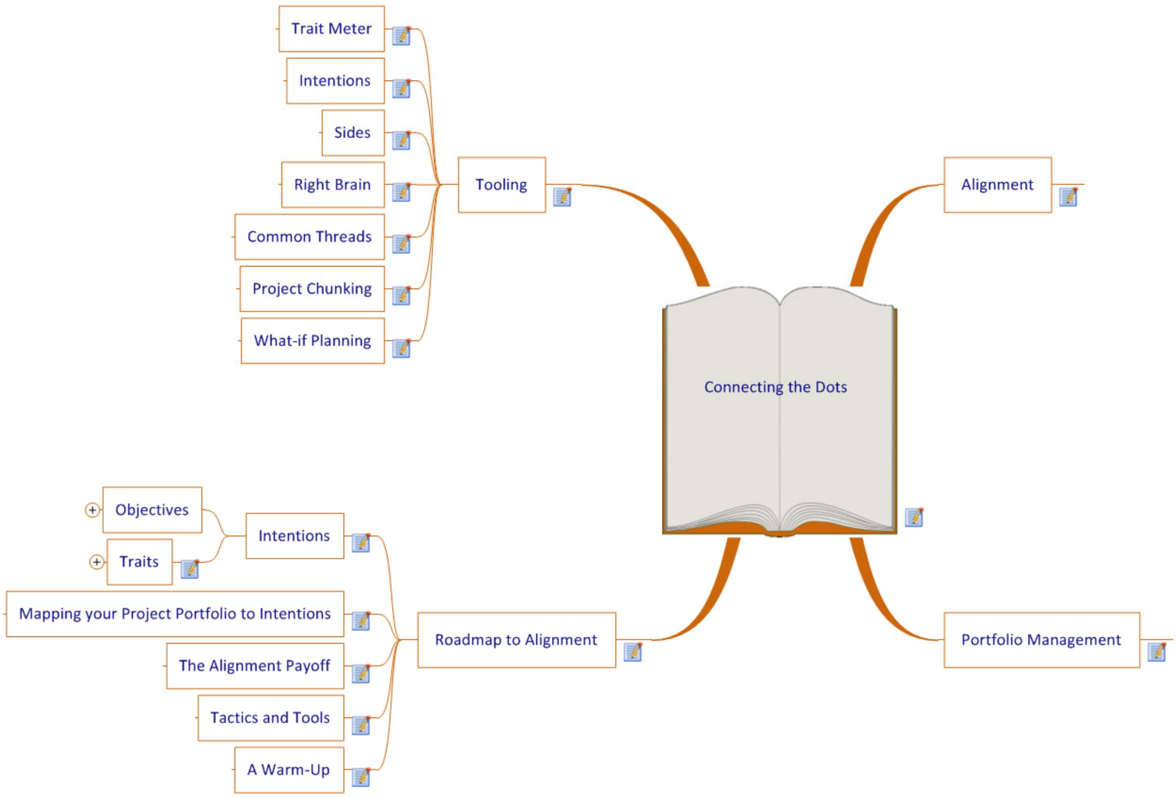
Connecting the Dots



Aligning Projects with Objectives in Unpredictable Times

Cathleen Benko

F. Warren McFarlan

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1 Alignment

Alignment is about better matching the portfolio's objectives and the company's strategies to the realities of today's business environment. It's about creating greater value and efficiency by managing the relationships among projects. It's about building the organisational capacity to respond effectively to *whatever future presents itself*.

Organisations are under increasing pressure to perform better and create more value. Alignment helps achieve both goals. It enhances shareholder value and confidence through its ability to better meet corporate objectives, increases efficiency, reduces risk, and provides options to hedge an uncertain future.

Cyclists expend significantly less energy when properly positioned to draft off of one another. Similarly, geese can travel 70 percent farther when aligned in "V" formation.

Are we ever going to see the value promised from our project investments? Projects have grown faster than organisations can effectively manage them - depressing returns on trillions of investments money. This is a symptom of misalignment.

Connecting the Dots focuses on aligning *your actions* (projects) with *what you want to achieve* (intentions). Alignment is never perfect or complete. (Even "perfect" alignment today would soon turn into misalignment, given the constant rate of change). Protecting alignment is all about monitoring, assessing, and making changes based on these assessments. With a little tweaking, they apply portfolio and options theory as tools to help managers navigate the unpredictability of the business context. The foundations are extended from traditional, proven concepts borrowed from the financial realm and applied to a topical and timely area of opportunity: alignment. Portfolio and options theory can assess and manage projects as a group. As a result, risk is diversified, efficiency is increased, and the chances of getting where you want to go are substantially increased. By working more closely together - with better alignment - the organisation's intentions and its project portfolio can deliver substantial benefits.

In an unpredictable world, the process of maintaining alignment is not a one-shot deal, or even an annual activity tied to the capital budgeting process. Instead, it is a *continuous* activity.

Encouraging and continuously building alignment occurs through two simultaneous routes. The first is simply incorporating elements of Connecting the Dots into the evaluation of proposed project or capital expenditure. Before projects are initiated, the organisation's leaders would ask a series of questions, such as:

- how does this project align to the company's intentions?
- does the scope of this project promote trait development?
- is the project designed to the tools of Common Threads, Project Chunking, and/or What-if Planning?

This is a relatively easy and painless adjustment to the way the organisation currently operates. There are no new processes or investments required - merely the inclusion of several additional evaluation criteria.

The second route is the regular measurement of the portfolio and its alignment to intentions. This creates an ongoing mechanism for monitoring and adapting the portfolio. It starts with the creation of a monitoring process. On a regular basis, the company gathers key managers to look at the project portfolio as a whole and review the organisation's investments for conformity. As they employ the tools, managers and leaders are evaluating, at both portfolio and a project level, how the portfolio can better align to intentions.

At regular intervals, the organisation can make midcourse corrections and rebalance the portfolio to improve alignment. Once this monitoring process is in place, the next evolution is to *optimise the value of the process*. The goal in this step in to improve the *quality* and the *timeliness* of the information received.

2 Portfolio Management

A company's project portfolio is where plans are translated into reality. It is the manifestation of what a company is doing and where it is going. It's where investments are made and resources are allocated. It has management's attention. And although it is not often framed in this light, the portfolio is a significant agent of organisational change. According to Benko and McFarlan it's the truest measure of organisational intent.

Principles:

- Companies are better served by adapting themselves for the future rather than by trying to predict its destination.
- The project portfolio is a company's future currency and an overlooked vehicle for unlocking hidden value while the company adapts for the future.
- Modern Portfolio Theory (MPT, Harry Markowitz) says, in a nutshell, that out of a universe of risky assets, an efficient frontier of optimal portfolios can be constructed that offers the maximum possible expected return for a given level of risk. MPT argues that there is no single right portfolio, Rather, given the level of risk the investor wishes to bear and careful consideration of the combined value and risk of different assets within a portfolio, an efficient portfolio can be compiled to deliver the maximum benefit to that investor. Key principles are:
- An optimal portfolio generates the highest possible return for a given level of risk.
- Expected risk has two sources: (1) investment risk - the risk of the stock itself and (2) relationship risk - the risk derived from how a stock relates to the other stocks in a portfolio.

These principles are extended to a company's project portfolio in the following way:

- Projects are investments the company makes in its future.
- Risk for individual projects is defined broadly. It includes a failure to obtain full project benefits, delays in implementation timelines, and budget overruns.
- The expected risk of the portfolio is a combination of investments risk: the individual project risk, the risk of how projects relate to one another, and the overall complexity of the portfolio.

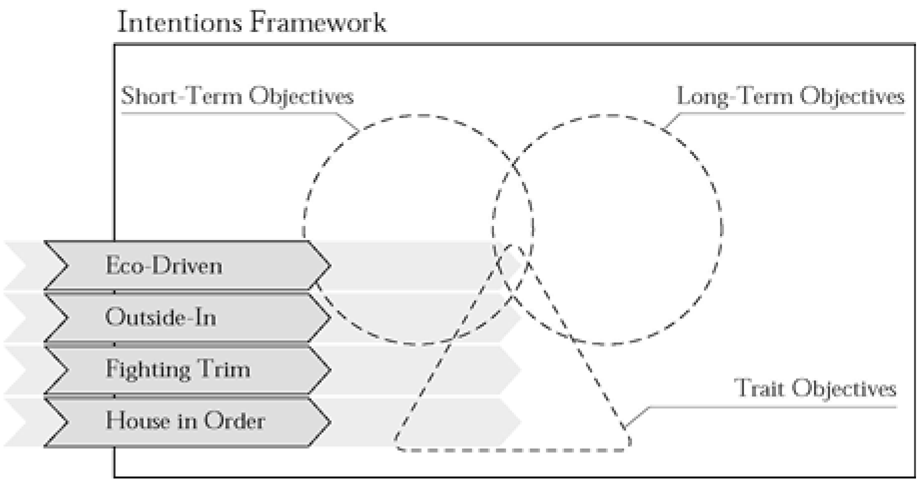
Through alignment, we increase the portfolio's currency value by reshaping it to achieve four general goals: (1) improve its direction, (2) increase its efficiency, (3) reduce its risks, and (4) enhance its flexibility.

3 Roadmap to Alignment

Alignment is the correct positioning of things in relation to each other. We are aligning three drivers of business performance: a company's project portfolio - its future currency - with its objectives; the projects in the portfolio to each other; and the portfolio and company's objectives with the shifting realities of the larger business context.

3.1 Intentions

An organisations intentions are three kinds of objectives: short-term, long-term and traits.



To a significant degree, the three kinds of objectives that comprise the organisations intentions - the two circles and the triangle are complementary and mutually reinforcing. In an ideal world, there would be lots of overlap among these shapes. In the real world, of course, limited resources and the conflicting needs of different constituencies often combine to create tension among these varied objectives. Companies need to cultivate four traits:

1. Eco Driven

2. Outside-In

3. Fighting Trim

4. House In Order

Focusing on traits as an explicit objective can help organisations adapt to this uncertain terrain. *Traits promote survival in volatile and changing conditions*. They provide the agility to both respond to and capitalise on changing business contexts.

Trait objectives represent the organisation's commitment to the mind-sets that will get it in line with the realities of frontier living. By specifying traits as a third, explicit objective (beside short-term and long-term), the organisation begins building the characteristics necessary to adapt to and take advantage of the opportunities on the information frontier. It also begins to focus more tangibly and expressly on the *interrelatedness* of the three sets of objectives, so that the impact of decisions can be better understood. At the same time, traits raise organisational awareness. They act as both a reminder and reinforcement of the organisational mind-set shift that we, as settlers, are trying to achieve. They even explain why some of the things you're already doing make sense - and why some may not.

3.1.1 Objectives

3.1.1.1 Short-Term

Examples:

- Achieve € 20 million in efficiency improvements this year.
- Enter one emerging market.
- Launch one or two new core products.

3.1.1.2 Long-Term

Examples:

- Achieve a 25 percent increase, to € 1.5 billion in revenue, through internal growth in three years.
- Increase gross margin by 2.5 percent in two years.
- Become the industry employer of choice.

3.1.1.3 Trait

3.1.2 Traits

Traits are about mind-set.

Traits are mutually reinforcing.

Traits provide the power of measurement.

Traits help with change, in part by providing constancy.

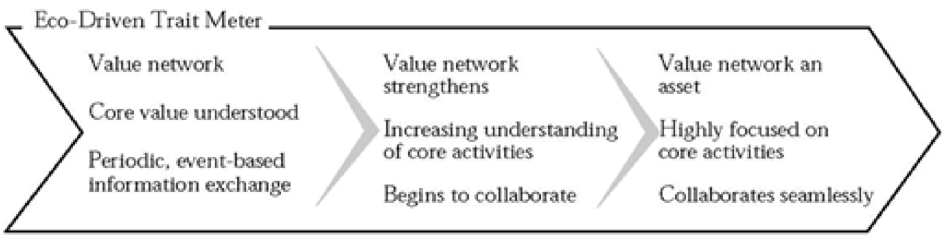
3.1.2.1 Eco-Driven

Effective collaboration that converts relationships across the ecosystem into corporate assets as the boundaries between firms blur and sometimes shift.

Eco-Driven companies view their network of relationships as an asset, in line with the shifting basis of competition from a linear, one-way *value chain* to a multidirectional, dynamic *value network*. The velocity of the environment compels companies to develop partnerships that help them get to market more quickly. As organisations partner, their new relationships reduce friction and create opportunities, but these virtual networks also make the partners more interdependent and mutually transparent. Furthermore, the blurring of roles creates situations in which your customer may also be your competitor, your competitor may be your "complementor," or your supplier may be your distributor.

By making informed decisions on potential collaborators and the developing these relationships, companies spread risk, pool capital, tap into special expertise, share learning, and enter new markets. They become springboards for one another's ideas, creating more innovation together than they could accomplish alone.

As companies work to intelligently view and cultivate their value networks and relationships as key assets, they should give particular consideration to two key principles: (1) focus on core competencies and strategic assets; and (2) foster collaboration.



General principles of Eco-Driven:

- Understand your network of relationships as a key asset.
- Identify and focus on your strategic assets and core competencies
- Foster collaboration within your value network

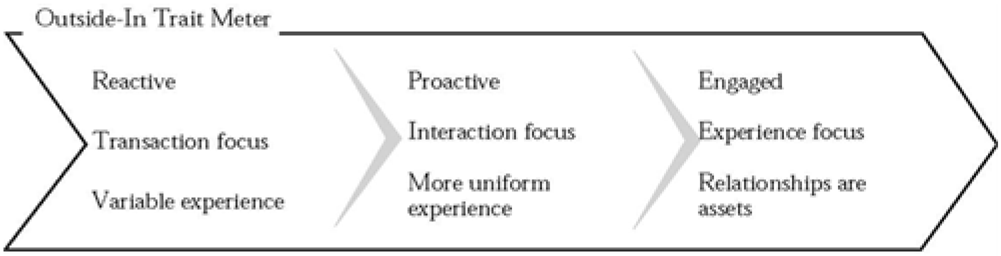
3.1.2.2 Outside-In

Taking a hard look at what it's like to do business with the guy in the mirror, and responding accordingly.

Outside-in is a mind-set that helps organisations form more productive relationships with key constituencies by looking in the mirror - by seeing themselves as their constituencies do.

Companies that embrace Outside-In create barriers to switching by building long-term relationships, especially with their most-valued constituencies (= customers, employees, investors, suppliers, business partners, alumni, community, regulators, industry analysts and other stakeholders).

To achieve Outside-In, *think interaction, not transaction*.

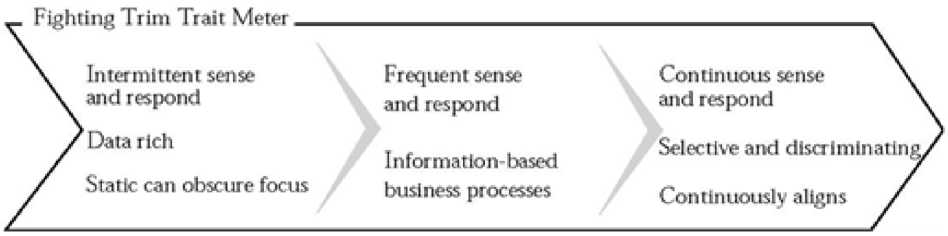


General principles of Outside-In:

- Look at the face in the mirror.
- Migrate from transaction to interaction.
- Build interactions into experiences that engender loyalty.

3.1.2.3 Fighting Trim

The agility, coordination, and options orientation required to act on opportunity, respond to external change, and contend with uncertainty.

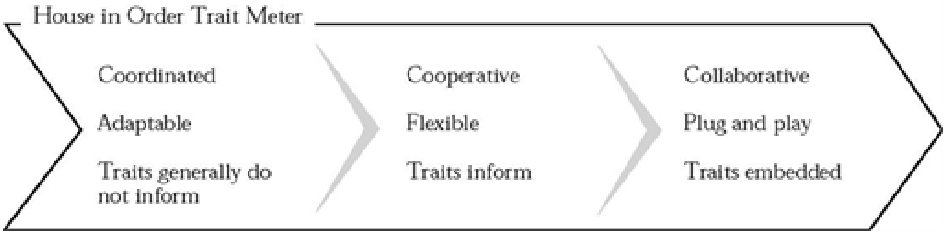


Rapid, willing action in response to compelling new information. The general principles are:

- Separate the signal from the noise.
- Sense and respond to the market.
- Be willing and able to act.

3.1.2.4 House In Order

An efficient, collaborative intraenterprise operation that, in turn, provisions the other traits and makes possible cross-enterprise cooperation.

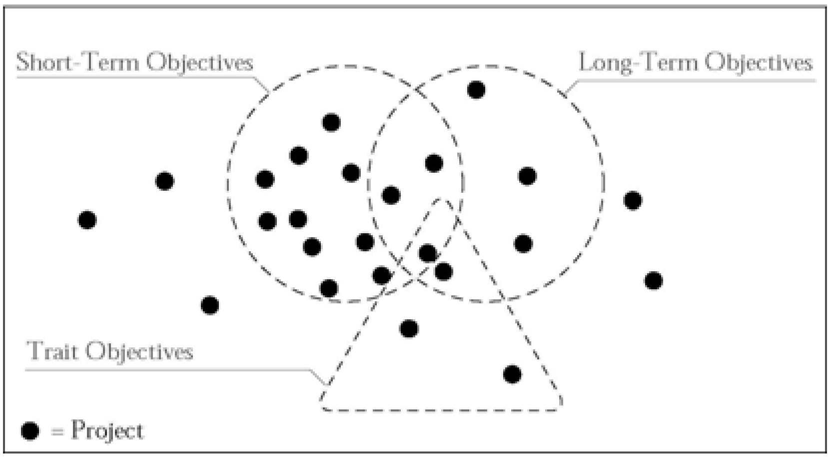


Principles of House in Order:

- Find and correct your weakest links.
- Think "lift and shift"
- To collaborate outside the walls, start inside the walls.

3.2 Mapping your Project Portfolio to Intentions

Alignment of Projects to Intentions



Aligning the companies' projects to its intentions, to each other, and to the unpredictable environment is a multi faced endeavour:

1. *Aligning the project portfolio to the company's intentions* - When the organisations activities are tightly aligned to its intentions the portfolio is more coherent and unified, which means less organisational friction at all levels.

2. *Aligning projects with other projects* - By coordination projects more effectively, hidden value is unlocked without significant incremental investment.

3. *Adapting the project portfolio and the organisation for frontier living* - Prosperous settlers need to ensure that their project portfolios reflect the unfolding realities of the frontier.

3.3 The Alignment Payoff

A better-aligned and adaptive organisation is not only more focused as it heads in its chosen direction, but it is also more flexible and efficient. Its risks have been spread more broadly, its resources better allocated, its attention more focused on the projects most likely to drive the business forward, and its options more deliberate and better understood.

3.4 Tactics and Tools

Think of a company's project portfolio as a poker hand — the cards you have been dealt. So what are you holding? And what is the best way to play your hand? Benko and McFarlan introduce seven practical tools that can help your organization better play its hand.

Why is the project portfolio important? Because it is the barometer of a company's future, and an overlooked vehicle for unlocking hidden value, restoring investor confidence, and preparing for uncertainty. These tools improve the alignment of a company's portfolio with its objectives, allowing it to get the most out of the *hand it's holding.*

Alignment Tool Summary

Tool	Description	Ways Tool Improves Alignment
Trait Meters	Assesses, plans, and measures trait development	Direction, flexibility
Intentions	Assesses alignment of portfolio to intentions	Direction, efficiency
Sides	Removes bias and finds synergies by sorting projects into main business activities	Direction, efficiency
Right Brain	Identifies change capacity issues	Efficiency, risk reduction
Common Threads	Finds common, reusable components	Efficiency, risk reduction, flexibility
Project Chunking	Structures projects into bite-size chunks that deliver incremental, standalone value	Risk reduction, flexibility
What if Planning	Develops contingencies for varying scenarios	Risk reduction, flexibility

Trait Meters are designed to help organisations better understand and set objective for trait development. The next three diagnostic tools are designed to assess the current level of alignment and provide insights into potential alignment opportunities - Intentions, Sides and Right Brain. They provide a clearer understanding of where its portfolio stands today and what it wants to achieve. Common Threads, Project Chunking and What-if Planning focuses on building flexibility into the portfolio.

3.5 A Warm-Up

Plot your project on the diagram (see diagram in paragraph "Mapping your Project Portfolio to Intentions") . To do so, sort them into one of three categories:

1. Outlier: a project that does no map to any of the intentions. These are going to land entirely outside the three shapes.

2. Single intention - a project that meets on objective. Plot this project inside the corresponding shape (i.e. inside a circle, but not in the zone of intersection with the other circle or the triangle)

3. Multiple intentions - a project that contributes to two or more objectives. Plot it in the appropriate area of intersection.

4 Tooling

Remember, these tools *complement* your company's current way of managing its collection of projects. Each is designed to integrate easily into your existing processes, allowing for quick implementation.

When applying the tools use the following seven ground rules:

1. *Check your guns at the door*. Dismiss any preconceived notions since this natural response impedes a critical and objective assessment. Ask yourself the hard questions and be willing to answer them honestly.

2. *Check your slide rule at the door*. When you apply the tool, start at a level where the process doesn't bog down in quantification and detail.

3. *Don't get overloaded*. You don't have to apply at the tools or all at once.

4. *The 80/20 rule applies*. E.g. apply a tool to the 20 percent of your project that represent 80 percent of expenditures.

5. *Look for opportunities to act*. You never have *all* the facts, and you don't need all the information to act and derive value. So incomplete information is no excuse for inaction.

6. *Look for opportunities to "turn up the dial"*. Each tool can be applied at a number of levels of details, with even the lowest level of effort delivering value.

7. *Let the Trait Meters be your guide.* When it comes to decisions and act, these meters give form to your business context and can help you adapt and capitalise on its opportunities.

The tools Trait Meter, Intentions, Sides and Right Brain provide insight into how to define and improve the alignment between a company's portfolio and intentions *today*. The tools Common Threads, Project Chunking and What-if Planning enables an organisation to adapt in ways that maintain or increase alignment over time by building flexibility or *options* into the project portfolio.

4.1 Trait Meter

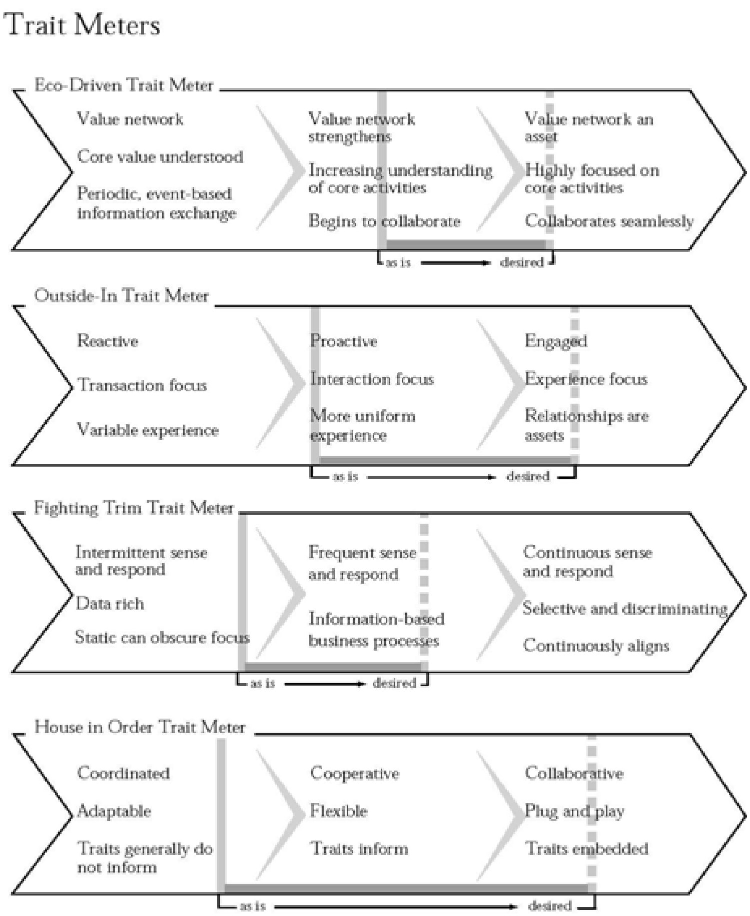
Prerequisites for using the Trait Meter tool are:

- list the short- and long-term objectives
- identify the company's trait objectives using the Trait Meter tool (eco-driven, outside -in, fighting trim, house in order).

Key-benefits:

- Establishes trait objectives
- Makes traits measurable
- Enables companies to gauge progress toward trait objectives

The following picture depicts an example of a possible result showing the gaps between "as is" and "desired":



4.2 Intentions

Prerequisites for using the Intention tool are:

- list the short- and long-term objectives
- identify the company's trait objectives using the Trait Meter tool (eco-driven, outside -in, fighting trim, house in order).
- pick representative projects and note important information related to each one, including sponsor, budget, project benefit/outcome, schedule, risk and deliverables.

There are 4 steps for using the intentions tool:

1. determine the ideal allocation of effort/budget (and/or expected outcomes) to short-term and long-term objectives.

2. assess the actual level of effort against objectives.

3. estimate how well each project furthers trait objectives.

4. compare the results and evaluate them for opportunities.

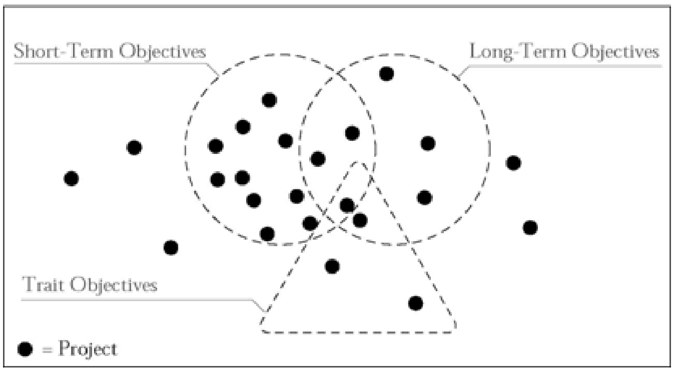
Key benefits:

- Visually presents an organization’s current level of alignment
- Evaluates how well project and portfolio outcomes will meet the company’s objectives

- Uncovers opportunities for greater project and intentions alignment
- Reveals ways to enhance trait development across the portfolio

Results may look like:

Alignment of Projects to Intentions



Note measuring by effort/budget tends to create a bias of favour of large-budget project. Relative efficiency and the overall cost versus benefit can be obscured when you measure by budgets alone.

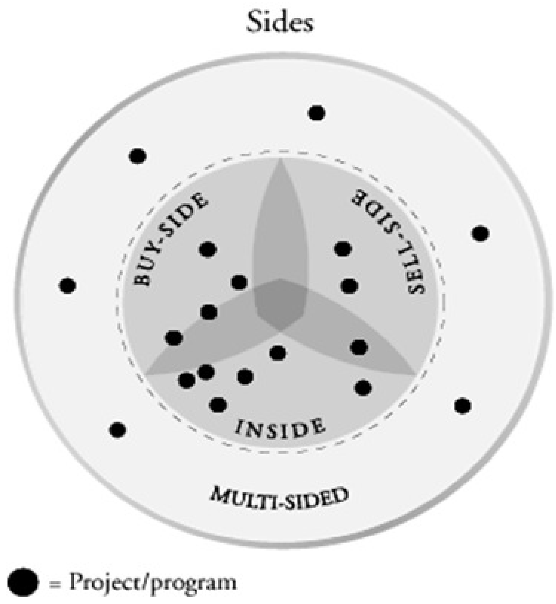
Measuring by expected outcomes also has its limitations: first, trying to score perfect alignment on all three objectives in unrealistic, so reasonable targets need to be developed. Second, without a quantified cost or budget, outcomes don't reflect the relative size of each project. Finallly, expected outcomes suffer from "benefit inflation".

By viewing both the expected-outcomes and effort/budget methods together, an even richer picture can emerge. Expected outcomes provide a clear view of which projects are *expected* to contribute and which are not. The budget allocation process then provides a sanity check. First, it provides the relative cost of each project, so a cost/benefit understanding can be gained. Second, it provides insight into whether projects can truly deliver on the promises made by looking at the amount of resources actually applied to each objective.

4.3 Sides

Sides reduces organisational bias from the portfolio analysis, damping self-interested perspectives and politics that all too often contribute to portfolio management. Waste, redundancy, and even conflicting objectives in the project portfolio are easier to see. Each Side of the business correlates to a section of the income statement, providing a high-level link between the portfolio and the shareholder value. Because each Side relates to specific constituencies both inside and outside the organisation, Sides provides a perspective of the portfolio that promotes traits.

Applying the Sides tool to a portfolio is a fairly simple process, requiring 2 project-level data points. The first data point results from assigning each project to a particular Side. The second results from indicating the project's primary impact, relative to the income statement. After adding these two data points, the portfolio can be sorted by Side and reviewed.



Sell-side includes activities that relate to the marketing, servicing, and selling of products and services. Its principal goal is to maximize the value of customer relationships over time.

Inside is everything that happens with the enterprise. Generally composed of two parts, operations and administration, inside seeks to coordinate and streamline internal processes and information flows.

Buy-side is any part of the organisation that works with the supply chain. The goal of this side is to optimise the value network.

Multi-side refers to projects and activities that span more than one of the sides, often providing integration and cooperation across them.

The Sides tool provides a view along three different dimensions. First, the allocation of resources by sides can be compared to the company's intentions to provide another perspective on the allocation of resources against intentions. Second, the projects in each side can be reviewed to see how well they relate to each other and to the Side in question. Finally, the sides view can be taken to another level of granularity, considering the impact on constituents' needs, both articulated and unarticulated.

Key benefits:

- Removes organizational bias
- Identifies synergies, interdependencies and efficiencies of project portfolio
- Finds redundancy and opportunities for improvements in ways projects work together

There are 3 steps for using the Sides tool:

1. assign each project to a side and map it to the income statement.

2. sort project by sides and gauge level of effort allocated to each side.

3. analyse how projects relate to one another and to intentions.

Sides creates a manageable *starting point for action*. By looking through sides, projects are grouped by common interest, constituencies, and areas of impact. and in this way foster collaboration and cooperation. It generates momentum for a mind-set shift and creates opportunities for synthesis and action, flagging opportunities for greater cooperation, and value creation.

4.4 Right Brain

Is there any circumstances in which a portfolio that is perfectly aligned to the company's intentions is effectively valueless? The answer is yes. It's the circumstance when the constituencies simply can't implement the changes that are required of them. With the Right Brain tool, we look at how to better allocate the capacity for change, to lower the risk and enhance the implementation success of the *entire* portfolio.

Change capacity is the extent to which people can move from one way of doing things to another *in any given period of time*. To estimate how much change capacity a project uses, four variables are assessed:

1. magnitude of change.

2. ability of constituency to change

3. willingness of constituency to change

4. timing

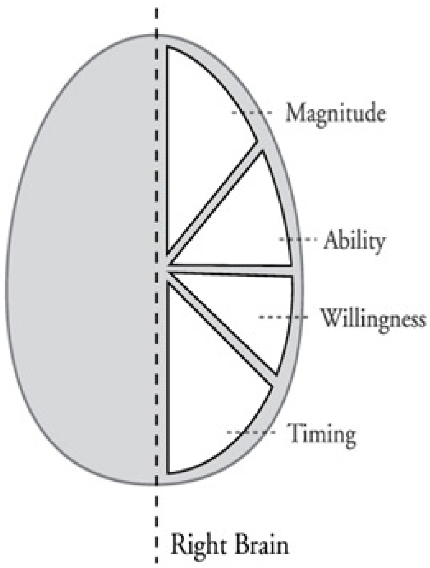
Four steps for the Right Brain tool:

1. identify key constituencies.

2. evaluate each project's change capacity.

3. assess overall match between change requirements and change capacity.

4. identify opportunities for leveraging change activities across project.



The Right Brain represents a reality check for the organisation.

Key benefits:

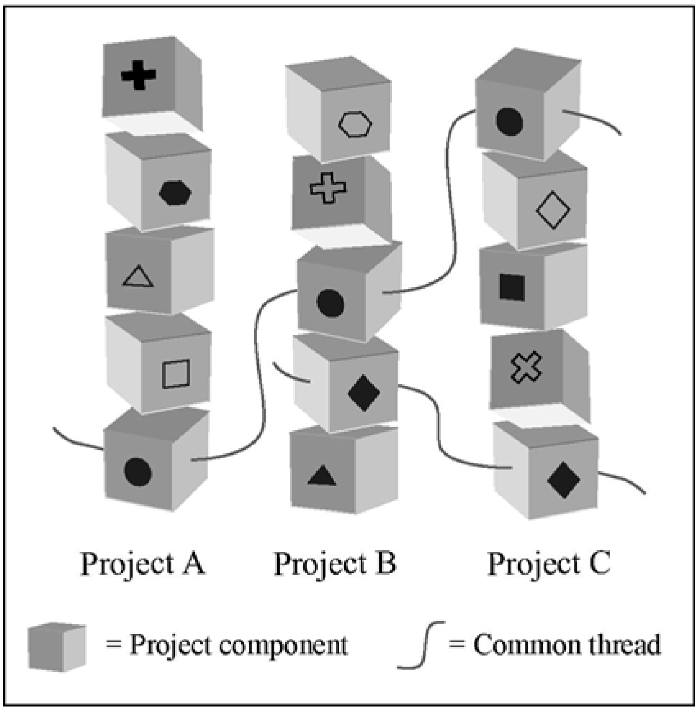
- Assesses organizational change requirements
- Uncovers change capacity issues and possible responses
- Assists in measuring – and eventually expanding – the organization’s change capacity

4.5 Common Threads

The central idea of Common Threads is that project components can be reused, replicated, extended, or better leveraged - improving both the efficiency and flexibility of the portfolio. The company's projects are broken down into their component parts and then search across these components to identify shareable components, or threads. Once found and developed as "shareware", these components are catalogued and available for reuse by multiple initiatives. Using Common Threads also reduces risk. Since components in the library are known to be effective (each has a proven track record), implementation risk falls for those efforts that recycle these existing components appropriately.

Most companies' portfolio are bimodal with a multitude of small- to mid-size projects and a few very large projects. While large projects tend to be top-of-mind when searching for common thread opportunities, most companies have only a handful pf projects of this size. At the same time, opportunities to reuse elements can often be found across the myriad of smaller and midsized projects proliferated across the company. Since most project funding occurs at a department level or lower, few project put much energy into creating solution components that can span across the entire company.

Common Threads



Steps for the Common Threads tool:

1. gather appropriate expertise.

2. use expertise to break projects into components.

3. identify common components across the portfolio.

4. evaluate coordination cost versus benefits of reusability (the cost/benefit hurdle).

5. build, catalogue and share reusable components

A caution: Benko and McFarlan don't recommend that companies build components "on speculation." Initially, at least, components should be developed for a specific project and purpose. To ensure the greatest possible leverage, the common components should be developed through existing efforts, as part of projects whose benefits are already validated. Over time, a company may want to fund selective common component projects whose value is derived solely from the elimination of duplication and the accompanying increase in portfolio flexibility.

Key benefits:

- Identifies reusable components
- Expands reuse beyond IT to include processes and constituent experiences
- Decreases risk by using previously proven components

The success of Common Threads depends on the ability of other projects to know where and how to access the existing library of reusable components.

Common Threads is a powerful tool for alignment. By leveraging shared data and reusable components, the organisation gains efficiency and responsiveness. Working from standard components also allows faster integration between different units of the organisation. This interoperability creates higher levels of House in Order, which, in turn, makes the organisation more responsive and facilitates the development of other traits.

4.6 Project Chunking

Project Chunking involves taking larger projects and breaking them into smaller bundles that reduce risk, realise benefits sooner, and increase flexibility by providing more choice points. Variations of Project Chunking are known by several names, including time-boxing, time-pacing, and fast- tracking, but they all focus on how to respond to uncertainty and velocity by building choice points and delivering value more quickly.

Chunking seeks to reduce four main sources of risk in a project:

1. the overall size,

2. the technical complexity,

3. long time lines, and

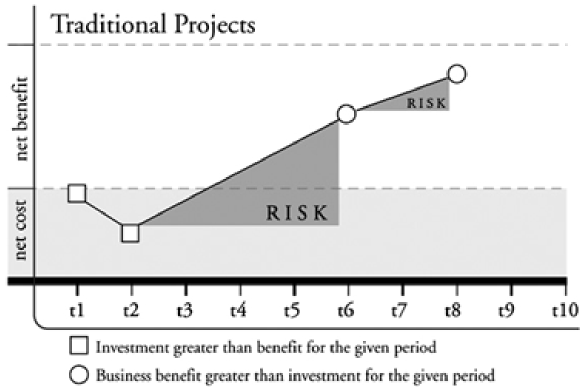
4. the amount of organisational change.

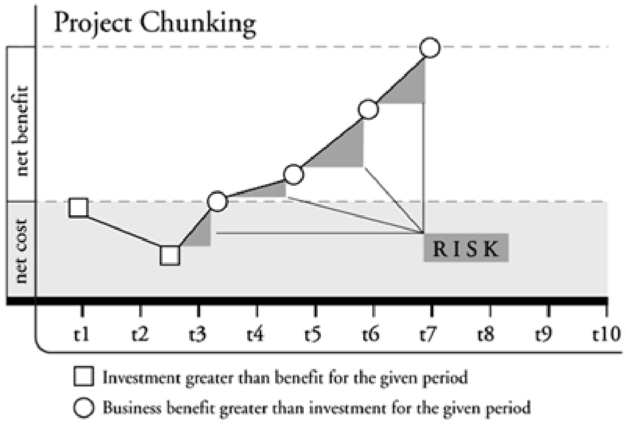
When selecting project for chunking, consider the following factors:

- Project scope and sponsorship
- Quick wins
- Cost/benefit hurdle

Once a project has been chosen for Chunking it is time to *build the chunked project game plan*. It's a high-level view of the activities and deliverables for each chunk of work, including a vision of how each new chunk builds upon previous ones to form a coherent whole. The trick to shaping a successful Chunking Plan is to *keep it on middle ground* across a number of dimensions, such as level of detail, amount of work invested, and emotional attachment. THe project's vision, business case, and scope are the best starting points for thinking about how not chunk a project. Like much of business decision making, there's no substitute for common sense when it comes to Chunking. Benko and McFarlan offer the following tips, which mainly augment your own good sense:

- *pain points or immediate needs*; in the first or early chunks, tackle immediate needs, such as a "pain point" or an easy-to-seize opportunity.
- *benefits are a must*; make sure that each chunk optimises its level of benefits.
- *minimise rework*; although easier said than done, the cost of a little rework is usually more than offset by the multiple benefits of Chunking, especially risk reduction in cases where the confidence level of being able to achieve a "best outcome" through more traditional methods is not high.
- *plan for learning*.





Key benefits:

- Captures incremental value while maintaining options for continuing investment
- Decreases risk by reducing implementation complexity and duration
- Promotes “pay as you go” mentality

4.7 What-if Planning

What-if Planning is about thinking through likely scenarios *in advance*, rather than waiting to react to an unfolding future. What-if Planning evaluates how readily the portfolio can adapt to major change. It helps companies better understand how decisions today may "lock-out" (or open) options for tomorrow. What-if helps companies see which projects are most fungible.

Scenarios are descriptions of alternative directions or constraints the portfolio may face due to changing priorities and the business environment.

Generally, there are two dimensions along which portfolios can be reshaped: (1) changing the priorities and (2) modifying the budget or resources available.

Steps for the What-if Planning tool:

1. identify scenarios to test portfolio

2. assess portfolio against scenarios

3. evaluate and adjust portfolio.

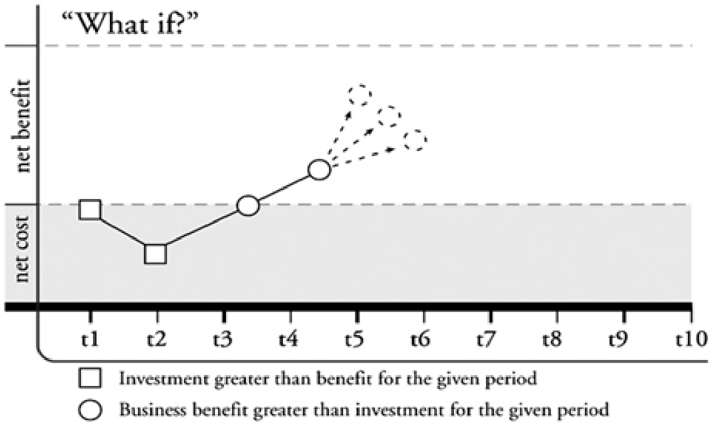
Generally speaking, scenarios impact the project in the portfolio in one of three ways:

1. *accelerate/enhance*; speed up project implementation and potentially enhance its scope.

2. *maintain*; keep the project time line, resource base, or scope "as is".

3. *slow/stop*; scale back or stop the project.

Rather than testing the entire portfolio, at least initially, Benko and McFarlan suggest limiting What-if Planning to key projects. By "key projects" they mean those that consume a disproportionate share of resources, are higher-risk and/or are critical to achieving the company's intentions. Project with an *accelerate/enhance* or *maintain* impact across all scenarios are very likely to increase the stability of the portfolio. Projects with *slow/stop* impacts in all scenarios, conversely, may need to come under closer scrutiny.



Key benefits:

- Raises awareness about how dependent an organization's success is on today's business environment
- Provides a measure of how well the portfolio will be able to respond to a change in context.