Sometimes the best way **to spark** growth in the organization is to shake up the portfolio.

growing UP

by Peter Fretty

photo by Scott Gries

Beth Zimmerman, Cerebellas LLC, Long Beach, N.Y., USA

REORGANIZING A PORTFOLIO is never easy, especially if it means dumping popular projects—but it may be the only way for a company to grow. For the restructuring to work, though, organizations must be ready to face the sometimes-brutal reality.

"You need to be honest with yourself when your business project portfolio needs to change, and this can be a difficult realization to accept," says Beth Zimmerman, founder and principal at Cerebellas LLC, Long Beach, N.Y., USA. "There are many times when you get so comfortable with what you are doing that there is reluctance to change, but you cannot get around the inevitable."

In her company's case, Cerebellas had developed a solid reputation for expertise in intelligence development and strategic planning. To grow, however, it needed to address its clients' demands for more creative solutions as well, so the company sought out a number of partners. The move allowed Cerebellas to offer the services as part of its portfolio without compromising its existing capabilities. "This was the most difficult part of the portfolio change because it has an impact on the company brand and reputation," Ms. Zimmerman says.

The reorganization created "a new level of complication," she says, but it offered a big reward, too. "This lets us actually see our plans through from creation to implementation."

To make a portfolio shift work, the organization must find the "right balance," says Raqib Sabur, portfolio manager at NSW Businesslink Pty Ltd., Liverpool, New South Wales, Australia. The agency was formed by the government to provide IT, finance, human resources and business support to three major public sector agencies.

The mix must provide the "best return on investment [ROI] with the least amount of risk—serve corporate and strategic directions and at the same time [you must] keep your view on market trends," he says. This takes a keen understanding of the organization's finances, business initiatives, directions, projections and plans.

Inside and Out

Both external and internal triggers should prompt an organization to look at whether it would make financial sense to reorganize its project portfolio, says Janet Davidson, chief strategy officer at Lucent Technologies, Murray Hill, N.J., USA.

"You need to be looking at the signs all the time," she says. "You cannot wait for an occurrence to monitor your portfolio," she says.

Organizations must be cognizant of external shifts—new competitors, global regulations—that can open or shut down opportunities. "If you have a portfolio where some things are performing and others are declining it is difficult to effectively show top line growth," she says. "After you review these aspects, it is possible to look at your existing portfolio and analyze whether or not you are positioned well to optimize and capitalize the growth potential while minimizing the impact of negative shifts."

Leaders must set priorities, define scope, responsibilities, goals and return on investment to clearly define expected project benefits.

—Radomir Božić, Komercijalna Banka, Belgrade, Serbia and Montenegro

Internally, Lucent compares its portfolio against benchmarks to determine its performance in terms of market share and profitability. "You may have a portfolio that is performing well in terms of profit but you also need to understand if it is achieving success in comparison to competitors," she says. "Underperformance may simply mean some changes."

Organizations must stay on top of portfolio management and be ready to act. "Whether it involves improvements or restructuring to capitalize on market spaces, analysis alone will not make you achieve your goals," she says.

Still, before making any changes, the leadership team must take the time to reach an informed consensus that reorganizing will provide benefits. "We use a five-year view of what our present portfolio will generate financially, and it is a full-stream income statement," she says. "As we evaluate different upturn and downturn scenarios impacting specific project areas, we financially model those so that we are certain the reorganization will actually create more shareholder value than the existing approach."

Executives should focus on eliminating assets—capital and people—tied up in underperforming activities, says Rita McGrath, associate professor at Columbia Business School, New York, N.Y., USA.

Zero in on the best opportunities and foster conditions for the build-up of true expertise. Texas

growing pains

ANY TIME A COMPANY LAUNCHES A PORTFOLIO SHIFT, there are going to be some awkward situations—including the unfortunate creation of displaced and dysfunctional teams. "It is important to help everyone understand why a project needs to be terminated and to have a process for doing this that is perceived as fair," says Rita McGrath of the Columbia Business School. "Leaders need to personally shut the thing down and do the communication."

The executive team must provide a vision for the shift. "Employees won't always embrace portfolio reorganization, but if they can see the long-term financial benefit and overall company benefit, they'll buy into the vision," says Brian Scudamore. As CEO of 1-800-Got-Junk? in Vancouver, British Columbia, Canada, Mr. Scudamore guided his junk removal company through a reorganization that embraced franchising.

Senior executives must focus on communicating the big picture, says Raqib Sabur of Businesslink Pty Ltd. "It is all a matter of how best to utilize limited funds to achieve business goals," he says. "There may be ways to show that their desired projects may be incorporated in the next round of strategy development, once the current top priority ones are delivered. This will adjust managers' thinking to align with corporate goals and objectives."

Leaders also must be sensitive to the commonly overlooked aspects of organizational structure, says Thomas Wuttke, PMP, 9:pm Projektmanagement GmbH. "Line management is still the key driver in many companies, and successfully changing a project portfolio means there needs to be a shift in dynamics from line management to project-centric-focused tactics," he says. "The key here is education and information. Who are the drivers and who is reluctant to make a change? Through training it is possible to make sure that everyone is in line and on board."

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Instruments, Dallas, Texas, USA, for example, dumped its defense and computer lines to pursue digital signal processing. The company developed "truly world-class capabilities and relationships" and its "stock price has been soaring since," Ms. McGrath says.

The executive team must keep a clear perspective on how the various parts of the portfolio are performing and take a good, hard look at the various projects, she says. "That should prompt some soul-searching with respect to which business areas might be ripe for exit. Think of this as cleaning out the closet before you go adding new items to it," she says. "The goal is to minimize regret, stop projects that aren't working and provide critical mass to projects that need resources."

It helps if the senior executive team develops a framework that future projects should fit within. "Leaders need to come up with a simple way of articulating what kinds of businesses should be pursued and which should not," she says.

A set of screening statements can provide focus and direction by giving team members a solid idea of what areas not to enter as well as what would make an opportunity attractive.

Executives should try to make a portfolio change as seamless as possible. Success depends heavily upon the leader's ability to understand and head off potential errors. "Leaders must set priorities, define scope, responsibilities, goals and ROI to clearly define expected project benefits," says Radomir Božić, special advisor to the bank president of Komercijalna Banka, Belgrade, Serbia and Montenegro. He recommends using a deterministic model, which takes no account of random variation and assumes there is only one possible result (which is known) for each alternative course or action. "Not using any model for project selection, initiation and prioritizing, or using the model with wrong algorithm or weighting factors and erroneous inputs, can spell disaster in even the best portfolio change."

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—Janet Davidson,
Lucent Technologies,
Murray Hill, N.J., USA

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Popular Project Syndrome

A portfolio reshuffling typically reflects shifts in the organization's politics or strategic goals, says Richard Brenner, principal of Chaco Canyon Consulting, Cambridge, Mass., USA. Either way, it means there could be a reduced organizational will to complete some existing projects. Those should be canceled or suspended, while others that were previously rejected should be re-evaluated. However, organizations should take care when reconsidering projects. "They usually contain features that were intended to support the old *status quo*, and such features might no longer be desirable," Mr. Brenner says. "Similarly, they might be missing features needed for the new conditions."

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—Thomas Wuttke, 9:pm Projektmanagement GmbH, Karlsruhe, Germany

In some instances, portfolio revamps mean that longstanding projects no longer fit the organizational model. This does nothing to quell their popularity, however. In these instances, executives must understand the common view while standing firm in their decisions. Unfortunately, the typical approach is like launching a neutron bomb, Ms. McGrath says. "You walk down the corridor and there are all these empty offices, and the project becomes undiscussable," she says. "This is when the management team needs to remain tactical and follow predetermined guidelines."

Ms. McGrath recommends the following rules:

- Have a process to make the decision—and make it. Don't just let the project wither away due to lukewarm support
- Be alert to lessons that might benefit the organization
- Do a post-mortem
- Publicly bring the action to closure. Explain the thought process and appropriately recognize the efforts of those who participated
- Move on.

Organizations must have an infrastructure that makes such revamps possible, Mr. Brenner says:

1. Everyone in the organization must understand how the reorganization works and should have the tools and resources needed to make the necessary transitions. The farther one is down in the organizational chart, the more important such tools are.
2. The culture must not stigmatize failure.
3. Executives must be adept at both propagating the message of the reorganization and in receiving and acting upon comments and concerns from the people they lead.

In many cases, simple readjustments can make a positive albeit artificial impact on an organization's bottom line. Executives must look long term to determine if the reorganization's tactics are truly yielding success.

"You need to be able to step back and look at how a project and projects within an organization's portfolio actually impact overall performance," says Thomas Wuttke, PMP, of 9:pm Projektmanagement GmbH, Karlsruhe, Germany.

And if things aren't quite working, get ready for another reorganization. PM

Peter Fretty, a freelancer based in Whitehall, Mich., USA, has appeared in more than 60 publications.