

PORTFOLIO MANAGEMENT - CAN IT REALLY MAKE A DIFFERENCE?



Highlights from the Major Projects Association event held on **8th December 2016**

With investment in infrastructure now seen as a high priority for the UK Government, there is an increasing need to boost the efficiency of delivery. Portfolio management of capital projects and programmes has the potential to do this. This Major Projects Association event discussed the opportunities and challenges for clients and the supply chain in adopting such an approach.

The adoption of a complex portfolio management approach to the delivery of capital investment is growing. However, to achieve successful outcomes, a major shift in culture is required by both client organisations and the supply chain. This shift must see planning and management of projects and programmes move from the current focus around *what* is being delivered to *why* it is being delivered.

'You need to be clear about what portfolio management can do for you. How far can you go if, in reality, you have a very prescriptive set of objectives?'

Lisa Kelvey, Associate Director, KPMG LLP

GETTING THE BALANCE RIGHT

Typically, capital project delivery is characterised by a can-do attitude. Teams work hard and battle to complete challenging projects, rather than going back to sponsors to seek change and potentially the chance for a better overall outcome.

Portfolio management offers the opportunity to change this. It starts at the strategic level and requires a change in culture to move away from that single focus of pushing individual projects over the line. The challenge is that, across the public and private sector, there is an inherent bias towards capital investment and the delivery of individual projects over investment in portfolios and longer-term asset maintenance.

Politically it remains difficult to sell investment in maintenance or in the longer-term benefits of capital investment. In a cost-constrained environment sponsors inherently seek results and ribbons to cut, leading to a focus on what to invest in, rather than why they are investing in the first place. Ensuring that the project sponsor is sufficiently involved in answering the question 'Why?' is a crucial step towards embracing portfolio management.

A successful portfolio approach requires the project sponsor to have the support of the supply chain. That means having a clear strategy to help teams to buy

into and move towards a portfolio mentality. Part of the challenge is for the two parties to understand and appreciate the other's objectives. Creating the right incentives is at the heart of this relationship: if the supply chain is not properly incentivised to think in terms of portfolios then it is unlikely to be motivated or commercially capable of thinking – and so reaping benefits for all – beyond delivery of their specific project.

'On individual projects you immediately put the team in a bubble. So how do they know that there are others in a similar position? The portfolio effect kicks in when the project manager needs help. We actively encourage our project managers to get to know their counterparts around the globe working on similar projects; effective knowledge sharing is one of the major benefits of portfolio management.'

Ian Williams, Head of Project Management, Maritime Services, BAE Systems

INTEGRATED PROJECT CONTROLS AND COMPREHENSIVE REPORTING

Portfolio management is made harder if the basics of individual project controls and reporting are not established correctly from the start. The process of getting such basics right begins by having access to good forecast data and adopting precise, comprehensive reporting across the scope of the portfolio.

'Focus is needed on decision-making. Do you really understand who is going to make that decision and understand what they need to make that decision?'

Lisa Kelvey, Associate Director, KPMG LLP

However, while comprehensive reporting dashboards are important in terms of driving projects forward, from a portfolio perspective the critical factor is what you do with that information. While project milestones are useful as key decision points, it is important when managing a portfolio for people to have sufficient knowledge or information to make these decisions based on wider implications.

Achieving this level of knowledge starts by creating a baseline for the portfolio – it is important to understand the budget and the planned outcomes from the investment. While the underlying data is crucial to support decisions, the supply chain is also vital to delivering the plan. Being clear with project teams and consultants over portfolio as well as project budget and outcome objectives is important.

The use of standard reviews and reports based on common languages and parameters around the world can help to amalgamate and make better use of data. By adopting such a standard view across the portfolio it is more likely that recurring risks are identified and mitigated based on past lessons.

PORTFOLIO APPROACH REQUIRES CULTURAL CHANGE

Improved communication across delivery teams is where portfolio management can come into its own as a vital step towards avoiding repeated mistakes. It is about developing a culture of learning from mistakes and using that learning to the benefit of the wider portfolio.

Part of the cultural shift required when managing portfolios is to allow project managers to use judgement based on their experience and exposure to other projects and programmes. It requires delivery teams to feel comfortable approaching sponsors with changes on specific projects that they feel will bring greater overall portfolio benefits.

'The benefit of working on multiple projects simultaneously is that you gain a better perspective.'
Robbie Owen, Partner, Pinsent Masons LLP

Often what is considered good behaviour in an isolated project delivery environment could be considered as bad behaviour in portfolio management. Spending time with teams to explain the new portfolio outcome objectives is critical to help break down existing project silos.

Simple steps such as getting teams together regularly to explain the portfolio management approach can make people feel part of the wider portfolio team, and starts them on the journey of change with the knowledge that this new behaviour is not only acceptable but encouraged.

POINTS FOR FURTHER DISCUSSION

- What can be done to improve project sponsor expectations over portfolio outcomes?
- How can the process of developing organisational maturity to embrace portfolio management be accelerated?
- What lessons can the private sector offer to the public sector around better portfolio management?

HIGHWAYS ENGLAND: CASE STUDY

Highways England is currently getting to grips with its transition from a project delivery organisation to becoming a portfolio management business charged with long-term outcome objectives.

Having morphed from the Highways Agency, the organisation now faces the challenge of building a team and a supply chain that can treat delivery of the Government's Road Investment Strategy (RIS) as a portfolio rather than simply as a set of discrete projects.

This challenge of changing culture sits alongside a major increase in activity. As an Agency, the organisation looked after 26 projects and £4bn of investment – by contrast the latest RIS sets out 112 projects worth £11.4bn. The challenge is thus to become an intelligent portfolio managing client while simultaneously growing to cope with a tripling of investment.

In response to this challenge Highways England is:

- Ensuring that its stakeholders and suppliers understand that the change required to embrace portfolio approach will not happen overnight.
- Aware that the new portfolio approach is dependent on the supply chain being rewarded accordingly.
- Working closely with suppliers to achieve mutual benefit from the new approach.

In its previous Highways Agency incarnation, the organisation had a good reputation for project delivery. This new move towards portfolio management, with focus on overall network and customer outcomes, will take time. However, developing an asset-led approach to capital investment and embedding maintenance priorities into the portfolio is set to reap long-term benefit.

'What was good behaviour when you are delivering projects can become bad behaviour when you are delivering a portfolio. It is not just about getting individual projects over the line.'

Alan Couzens, Capital Portfolio Director, Highways England

With grateful thanks to Pinsent Masons LLP for hosting this event.

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