

Portfolio Management and Enterprise Risk Management

Synonyms for addressing the same problem?

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What is Portfolio Management?

- *“A co-ordinated collection of strategic processes and decisions that together enable the most effective balance of organisational change and business as usual. (OGC)”*
- Balances
 - Change and normal service
 - Risk v return
 - Transformational v operational v under-pining platform



Risk Management

- “The effect of uncertainty on objectives”
- Does this work at the enterprise level?
 - Strategy: desired future, (SM)A?R(T)
 - Ambiguity: multiple options, no chosen path
 - Uncertainty: unknowns
 - ‘Chaos’: unknown unknowns
 - Uncontrollable environmental drivers

Some useful risk concepts at the Enterprise level

With thanks to Jim Collins, Nicholas Taleb, Dan Arielly

- ‘Death line’ risks: betting the farm
- Asymmetric risks: worse downside than upside
- Uncontrollable risks: exposure to things outside your control
- Irrational choices: ‘the smartest people in the room’
- The Black Swan: the rare event that isn’t so rare or being aware of the bell curve
- Knock-on risks: changing the game more than you think
- Interconnectivity: a lot of enterprise risks are not discrete from one another and there are secondary effects.

Portfolio Management and Enterprise Risk

- Strategic goals that describe the real reason for the organisation's existence
 - Enterprise risk – diluting the brand, expansion beyond the core
- Strategic objectives that (S)pecifically, (M)easurably, (A?)chievably, Realistically, (T)imebound deliver the goals
 - Enterprise Risk – no objectives or objectives that do not promote a real ability to choose what to do/are not points of difference
- An ability to measure success or failure in the business
 - Enterprise risk – No measurement system or one that doesn't really measure what matters



Portfolio Management and Enterprise Risk

- An Executive that will make decisions
 - Enterprise risk – Executive is indecisive and then reactive
- Projects and Programmes driven from the Objectives
 - Enterprise Risk – poor match between projects/programmes and objectives
- Business capability to deliver the project and programmes
 - Enterprise risk – lack of capacity and/or capability



Portfolio Management and Enterprise Risk

- Business capability to absorb the project/programme driven change
 - Enterprise risk – imbalance between normal service, transformational, operational and under-pining platform
- Staying on target (Goals/Objectives) but being flexible in the path (projects/programmes)
 - Enterprise risk – not killing projects that need to die
- Checking in – are the measures telling us that we are achieving
 - Enterprise risk – wishful thinking in the face of the evidence



Portfolio Management and Enterprise Risk

- Being accountable – owning the benefits
 - Enterprise risk – mixing responsibility with accountability and confusing accountability with control
- Delivering the strategy : the benefits as subsets of the objectives
 - Enterprise risk – not staying the distance to the benefits/objectives AND not managing changes to these and/or the operating environment



In Summary, portfolio management means

- Don't have to win them all, have to win enough
 - Acceptable level of business performance risk
- Need to know what you know, what you assume and what you don't know
 - Acceptable level of uncertainty
- Need to match your portfolio to your risk appetite, have to know your non-negotiables
 - Operating mode



And does it work?

Here's what organisations see first

- Waste reduction: elimination/rationalisation of overlapping projects
- Waste reduction: failure rate falls
- 'Manageability': can resource/absorb the body of work

The evidence on organisational success as portfolio managers (outside finance) is still being gathered

Questions



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