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The Difference between Strategic and Operational Portfolio Decisions

Don Creswell, SmartOrg

A Google search provides hundreds, maybe thousands of references to portfolio management. I grabbed this definition from a BBC "bite-size" reference: "**Portfolio management** is the centralized **management** of one or more **portfolios**, which includes identifying, prioritizing, authorizing, **managing**, and controlling projects, programs and other related work to achieve specific strategic business objectives."

The phrase "management of one or more portfolios" is an important concept within the definition. Portfolios of all kinds proliferate: stock and bond portfolios, retirement portfolios, mutual fund portfolios, insurance portfolios and so on. Within R&D, NPD and innovation, there are fundamentally two types of portfolios: strategic and operational (tactical) and within these portfolios there may be many sub-portfolios such as technology, innovation, R&D, NPD, geographic, product line, or business unit portfolios. Each serves a different set of decision makers.

The prevalent distinction in most business settings is between **strategic** and **operational** or tactical portfolios, with the latter prevailing simply because this is where the most action is: day-to-day operations where the details of project management (budgets, time cards, phasse gate reviews, etc.) are routinely updated and data is readily available to enable adjustments and get things back on track. Decision makers tend to be project managers and data input to the system is provided by dozens, even hundreds of people. In operational portfolios, data drives decisions.

Strategic portfolios involve a much smaller user base. Decision makers tend to be senior executives, leaders of cross-functional teams (finance, marketing, R&D) and their staffs. Unlike operational portfolios, where there may be hundreds or even thousands of projects, strategic portfolios generally involve a relatively small number of projects, initiatives or opportunities that will have a major impact on the future of the company.

Data and information is a starting point for engaging stakeholders in conversations.

Another characteristic of strategic projects is a lack of data, since many factors involve uncertain futures that significantly complicate decision making. Data does not drive decisions since little data about the future exists. At best, data and information is a starting point for engaging stakeholders in conversations around uncertainty ("what you know and what you don't know") and its impact on market size, margins, growth rate, market penetration, price, cost and other factors that contribute to value creation.

Software that supports each of these types of portfolios serves very different purposes.

> **"In a world where so many people now have access to education and cheap tools of innovation, innovation that happens from the bottom up tends to be chaotic but smart. Innovation that happens from the top down tends to be orderly but dumb."**
>
> — Curt Carlson
> former CEO
> SRI International

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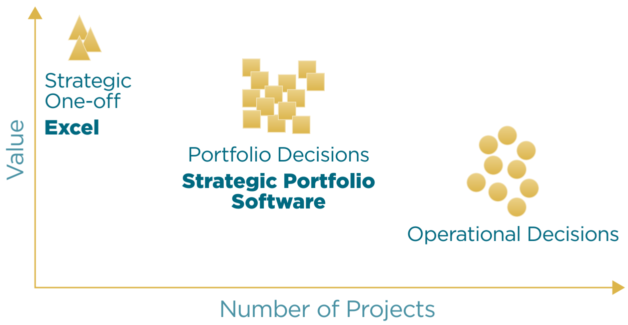
VIDEO

The Right Software Tool for the Job

The software application most suitable to project analysis and decision support depends upon the complexity of the problem, whether it is one-time or routine, extent of risk/uncertainty and the impact on top- and bottom-line growth. The graphic shows the application of different types of software to support project and portfolio decisions.



One-of-a-kind major strategic decisions: these decisions are infrequent, tend to be very complex and can be expected to have significant impact on the company. An example might be to purchase a competitor to gain access to an emerging technology. There are numerous analytic tools used by analysts and consultants with Excel often being the tool of choice.

Strategic project/portfolio decisions: strategic projects are those that will have a major impact on the company's growth and profitability. Strategic projects tend to be complex in terms of uncertainties around technical, economic and cost factors, many of which may be beyond the control of decision makers. The number of projects in the portfolio tends to be relatively small compared to operational projects. Software needs to address risk and uncertainty and provide information that engages decision makers and teams in the decision-making process. Software like SmartOrg Portfolio Navigator® is specifically designed to address strategic project/portfolio issues.

Operational project/portfolio decisions: decisions around the day-to-day management of projects in development and their associated portfolios focus on the execution of tasks, time and resource allocation. Data is readily available via PPM systems that enable managers to take corrective action where needed. There is little uncertainty and risks can be managed. A large number of software vendors support operational PPM, including SAP, Oracle, Planview and many others.

In summary, there is a great deal of difference between strategic and operational decision making. Strategic portfolio software addresses the needs of the C suite and those with P&L responsibility. Operational portfolio software supports the needs of front-line project managers. It is important to select the right process and tools for the right job.

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SmartOrg®

855 Oak Grove Avenue, Suite 202
Menlo Park, CA 94025

T: +1.650.470.0120 | F: +1.650.328.1612
info@smartorg.com | www.smartorg.com

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