

AN ENTERPRISE PORTFOLIO APPROACH FOR THE MANAGEMENT OF OPERATIONAL IMPROVEMENT STRATEGIES

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ABSTRACT

Most organisations are in one way or another involved with optimisation initiatives that result from the continual pressure to deliver acceptable returns to shareholders. This paper presents an enterprise portfolio approach to the management of operational improvement strategies and actions, as implemented in organisations. The approach is based on a number of methodologies and techniques grouped together to enable management and optimisation practitioners to focus and align optimisation initiatives to strategic goals of the organisation. The core of this approach lies in the philosophy of financial portfolio management and the emerging discipline of project portfolio management. A case study on the South African Micro Finance Apex Fund is included to demonstrate the application of the enterprise portfolio approach.

Key Words: Enterprise portfolio management, balanced scorecard, business processes

INTRODUCTION

Organisations are under continual pressure to optimise and deliver acceptable returns to their shareholders. They face daily challenges that range from legislation, global competition, geographic locations, to new technologies. As a result, optimisation and change initiatives form an integral part of business strategy and operational activities. The issue that this paper addresses is not whether the organisation actively engages in these activities, but rather whether these activities are managed with a focus aligned to the organisation's strategy. The enterprise portfolio approach is a solution to ensure balance between the drivers for optimal performance in the organisation, as well as ensuring that all activities, initiatives and resources align to the strategy for coherent and optimal delivery.

The core of this approach is found in the philosophy of financial portfolio management. Financial portfolio management focuses on the careful selection of assets to deliver performance according to acceptable risk profiles in applicable business cycles. Similar to this, the board of directors of the organisation needs to steer and manage change initiatives to deliver acceptable returns to their shareholders. Optimisation and change initiatives are normally dealt with as discrete work activities (projects), and as such project portfolio management is included and combined in the enterprise portfolio approach.

In addition to the philosophy, two founding principles define the enterprise portfolio approach. The first principle centres on the construction of a successful organisation, whilst the second principle deals with the deployment of optimisation initiatives in these organisations.

The approach is based on a number of methodologies and techniques that are grouped together to form an integrated framework to enable management and optimisation practitioners to manage initiatives for optimal delivery and performance. These methodologies include the balanced scorecard methodology, organisation information dynamics, business architectures, and business engineering.

Finally, the paper is concluded with a case study that demonstrates the approach in a financial services institution, as well as a number of key success factors required for successful enterprise portfolio management implementations.

DRIVERS

Drivers for the enterprise portfolio approach depend on the stakeholder view, whether it is seen through the eyes of a shareholder, employee or optimisation expert.

From a shareholder view, any changes in the business caused by these initiatives should not risk cash flow, income statement, balance sheet, customers or the organisation's ability to deliver goods and services. It is normally good practice to understand, quantify, and plan for these risks as optimisation initiatives are implemented.

From an employee view, employees are impacted by optimisation efforts, either being part of the project team, or being part of the process that is optimised. It is however imperative that the employee needs to understand and quantify those parts of the business that is being optimised. This ensures that the objective of increased performance delivery is achieved.

From an optimisation expert's view, typical optimisation initiatives always place key resources under pressure to meet project deadlines and delivery on the stated business case. Unfortunately, most initiatives normally result in missed deadlines and non-performing deliverables.

These broad groups of drivers ensure the necessity for establishing an integrated framework, which can be used to manage all initiatives in an aligned and co-coordinated manner, to ensure viability, focus, alignment, resource loading, and risk management.

PORTFOLIO MANAGEMENT

Portfolio management is the founding philosophy for the enterprise portfolio approach, especially as it is practiced in the financial markets. Financial portfolio management is a well-defined and refined discipline which focuses on the overall portfolio performance of combined asset classes and risk profiles in different business cycles. To optimise these portfolios, an investment manager will make a careful selection of assets to be included in the portfolio. In addition, understanding risk profiles in different business cycles for the selected asset base will ensure that the portfolio performance objects are met. All of these actions will be driven by the specific investment strategy and context as portfolio performance becomes evident over time. In the project management discipline, enterprise project portfolio management is starting to emerge as a discipline that focuses on the overall and aggregated performance of the portfolio and its underlying projects. Within the context of this paper the terms *projects* and *assets* are used interchangeably.

Investment Portfolio Management

Investment Portfolio Management is a set of tools, techniques, and methodologies that is applied to the management of a group of assets. Scenario planning, impact analysis, risk control, implementation, and monitoring follow a continuous pattern to ensure acceptable returns in a particular risk model for the investment portfolio manager.

Scenario planning entails the development of a scenario that takes macro and micro factors within a given economical sphere into account. This scenario is then evaluated for a suitable investment vehicle. Causal factors and different resource types are analysed to determine impact on the forecast scenario. Once the appropriate investment technique is selected, an appropriate risk management strategy can be formulated. The allocated risk portion of the investment is implemented in the selected market and will constitute an asset class in the portfolio that is operationally managed through standard operating procedures. A well-defined investment portfolio management system will minimise losses and optimise profits for its shareholders.

Project Portfolio Management

Operations and projects differ primarily in that operations are ongoing and repetitive, while projects are temporary and unique. In this context, a project is defined as a temporary endeavor undertaken to create a unique product or service (Duncan, 1996). *Project Management* is the application of knowledge, skills, tools, and techniques to manage project activities for meeting stakeholder needs and expectations (Duncan, 1996). In an organisation, project portfolio management focuses attention on a more aggregated project level than on individual projects and their performance.

The primary objectives are to identify, select, finance, monitor, and maintain the appropriate mix of projects and initiatives necessary to achieve organisational goals and objectives. It involves the consideration of aggregated costs, risks and returns of all projects within the portfolio, as well as various trade-offs between them. Key to ensuring the success of the portfolio is that end-to-end business processes and their complete supporting business architectures are taken into consideration when managing and balancing all aspects of the portfolio (Davis, 2003).

The project portfolio manager is also concerned about the “health” and well-being of each project that is included in the organisation project portfolio. After all, portfolio decisions, such as whether to fund a new project or to continue financing an ongoing one, are based on the information provided on an individual project level (Pennypacker and Sepate, 2002).

FOUNDING PRINCIPLES

The founding principles of the enterprise portfolio approach are based on the development of a successful organisation and the best practice operations management approach to optimisation initiatives.

Successful organisations

A typical successful organisation is an organisation that is focused, integrated and aligned along its corporate and business strategy to deliver customer value through its organisational capabilities. This will happen if the four key areas of *direction setting*, *customer alignment*, *organisational capability* and *human resource capability* are addressed in such a manner that successful operations can take place.

Direction setting ensures that a clear vision, mission, and strategy are defined for the organisation whilst the business planning cycle ensures that appropriate resources are assigned to strategy for execution. Within this direction, *customer understanding* creates products and services that translate customer values into the customer aligned organisation. Delivery of these products and services depends on a suitable and appropriate *organisational* and *process capability*. This capability is created through aligning people and processes to the business strategy, as well as making sure that metrics are in place to measure operational activities. Finally, a successful organisation develops

human resource capabilities through clearly defined roles, competencies, behaviours, and culture. Making sure that this cycle is aligned and working well creates a successful organisation.

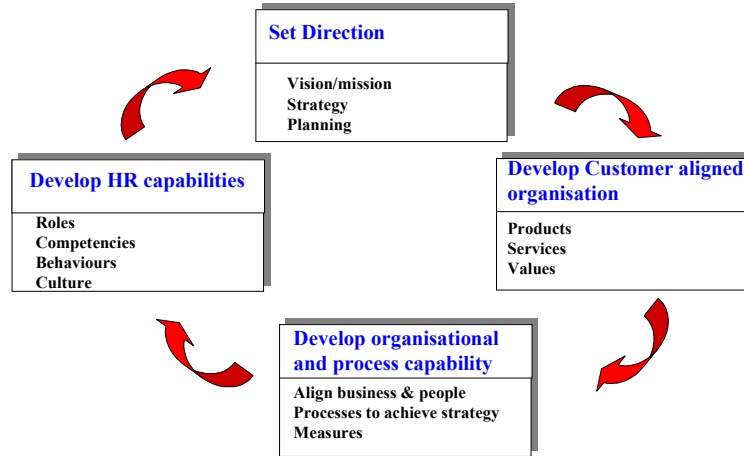


Figure 1 Construction of a successful organisation

Improving Operations

Optimisation initiatives need to be placed in perspective with regard to a “successful” organisation. Although these initiatives are not only limited to the operations function of the organisation, this paper uses the organisation’s core operations area as focus for discussion.

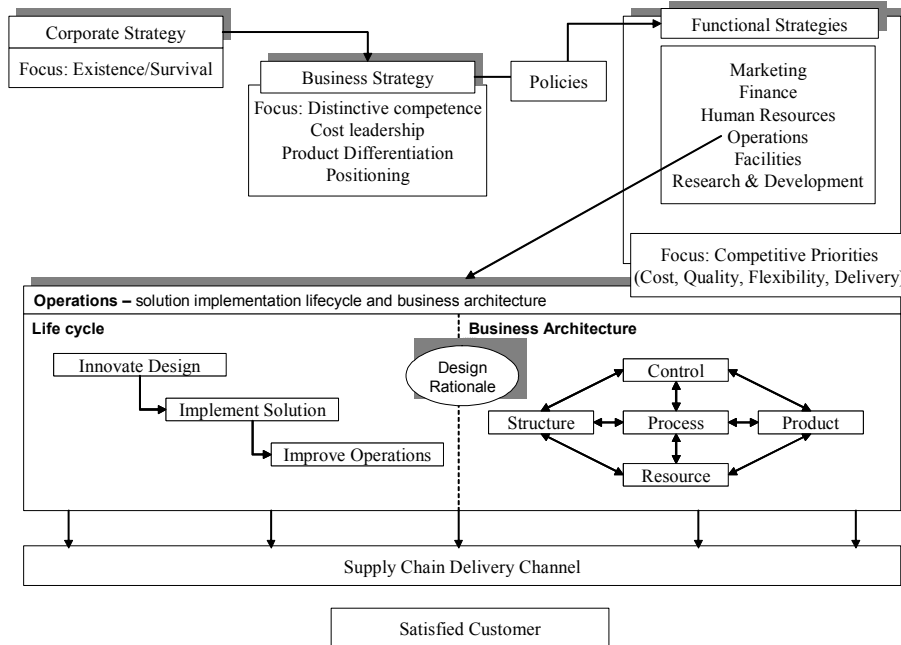


Figure 2 Optimisation Cycle in Operations Management

The operations function is central to the organisation as it is responsible for product and service delivery to the customer, but it is neither the only, nor necessarily the most important function in the organisation (Pycraft, 2002). It forms the “heart” of the organisation although it is very difficult to

imagine how any organisation survives without management and support processes. Figure 2 (Pycraft, 2002), (Van Rensburg, 1996), explains how optimisation initiatives evolve from the operations lifecycle, and how they are managed.

Operations strategy is derived from the business strategy and focuses competitive priorities for the organisation such as cost, quality, flexibility, and delivery. The supply chain that enables operations to deliver products and services to the customer is a core responsibility and any breakdown in this process will result in operational problems, declining margins and unhappy customers.

During operations, optimisation initiatives are implemented to improve the original design and to ensure continual optimal performance delivery. For all purposes, optimisation initiatives are placed in a generic life cycle that *innovate* new designs, *implement* these solutions, and *improve* the implemented operations.

Throughout this life cycle, optimisation initiatives should be managed in a holistic integrated manner that addresses the meta components of the business, namely process, resource, structure, product and management control of the operations functions.

ENTERPRISE PORTFOLIO OVERVIEW

Within the context of portfolio management and best practice organisational design, the enterprise portfolio approach is defined as an integrated framework consisting of four capability areas. They are the *balanced scorecard methodology*, *business architectures*, *organisation information dynamics*, and *business engineering*. This structured approach allows the organisation to balance and manage optimisation initiatives according to the strategy and direction of the organisation as a whole.

Balanced Scorecard

Traditionally organisational performance is measured by financial measurements. The main problem with this approach is that financial measures describe past events, lagging the real causes for certain events (Kaplan and Norton, 1996). Leading indicators are required to understand the impact of customers, suppliers, employees, processes and technology on the organisation. The balanced scorecard is a methodology that extends traditional financial measures with measures for customers, processes and employees. These four perspectives on organisational performance highlights objectives and measures to address future performance issues in context of past performance drivers.

In essence the Balanced Scorecard expands business objectives beyond financial measures. This allows executives to measure how the organisation is creating value for its customers and how they need to enhance organisational capability through management of people, systems, and processes to improve performance (Kaplan and Norton, 1996).

Business Architectures

Business Architecture is the process of defining the architecture of the organisation in support of business management and optimisation (Spewak, 1993). Architecture in this context is the blueprint of the organisation represented by the basic models of function, process and object (Van Rensburg, 1996). In the business architecture domain, these models present abstract horizontal views and vertical views of the organisation. Horizontal layers model different levels of abstraction in the organisation with the business owner/shareholder forming the top layer, and the builder/worker the lower level of detail in the organisation. Vertical layers in the organisation allow for the description

of user-defined views on the organisation. Most commonly, these views will be defined to present abstract layers of data, process, strategy, people and networks in the organisation.

The combination of the vertical and horizontal layers provides a holistic understanding of the architecture and construction of the organisation.

Organisation Information Dynamics

Organisation Information Dynamics (OID) describes the collective discipline of information management and its application in the organisation. This includes subject areas such as Decision Support Systems (DSS), Management Information Systems (MIS), Executive Information Systems (EIS), Knowledge Management (KM) and Data Warehousing (Render and Stair, 1995). OID is seen as an important business tool that assists the organisation to get the right information in an organised way to the right people in the right place at the right time.

In the context of this framework, information is seen as any occurrence from source data to structured reports as long as the decision maker can use information to assess and understand performance levels of the organisation.

Business Engineering

Business Engineering aims to provide the operational change mechanism for implementation and monitoring of the optimisation initiative as projects. The key success factor is a well-defined change management approach, which uses chosen financial measurements as reference point. The financial measurement identifies the appropriate product and service mix, which in turn specifies the end-to-end business processes that are responsible for product/service delivery.

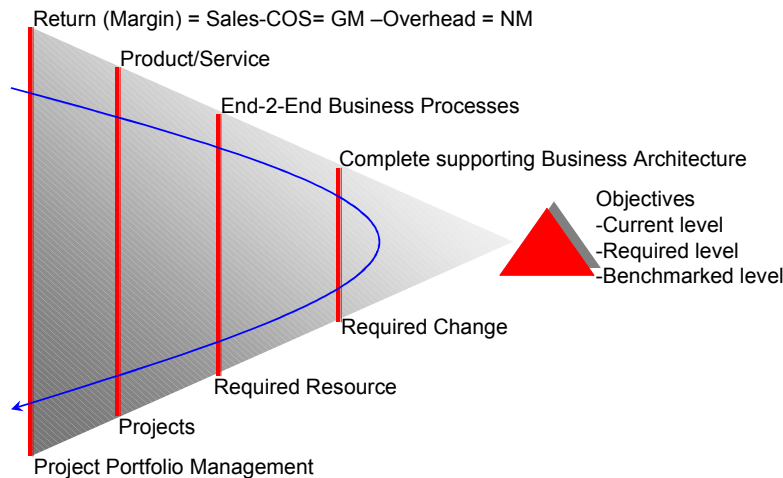


Figure 4 Business Engineering

Depending on the level of change required, a supporting business architecture is scoped and defined for the end-to-end business process. This architecture is then used to develop and define objectives that support the optimisation initiative. For these identified objectives, current performance levels will be obtained from the OID domain, whilst benchmarking and competitor analysis will indicate required and benchmarked performance levels. These definitions will describe the gap between the current AS-IS situation and the required TO-BE situation, and will be used to plan the work actions required to bridge the gap. As these work actions require resources to be put into action, resource planning is done to ensure that these work actions can be properly staffed and executed. Newly formed projects are placed into a portfolio of projects to be managed for optimal returns.

Integrated Framework

Optimisation initiatives normally result in projects that are managed from project offices, line management responsibilities, or steering committees. In the author’s experience, organisations tend to run multiple projects and activities without having an aligned focus on the organisation as a whole. This usually results in individualistic actions that are absorbed in the ensuing project chaos without having any real impact on the bottom line. The following key causes that contribute to failing optimisation initiatives are presented in table 1.

Table 1 Key causes to failing optimisation initiatives

Key Cause	Explanation	Target Capability Area
Strategy	Lack of understanding and alignment to the business strategy	Balanced Scorecard Methodology
Business process scope	Unclear end-to-end business processes	Business Architecture
Organisation-wide data and information	Focusing on 80% efforts that result in 20% impact because of lack of information intelligence	Organisation Information Dynamics
Change Management	Misunderstanding of change management principles to implement optimisation initiatives.	Business Engineering

Each of these four key areas covers four important questions that need to be answered in order to improve organisational performance (figure 3). “*Why are we doing this?*” addresses the intention of business strategy in the organisation through the balanced scorecard methodology. Organisation information dynamics focuses on “*How are we doing?*” through available information to define performance measures and statistics. The question “*What do we have?*” informs the organisation which systems, people, processes and infrastructure are involved or impacted in a change initiative. Then finally, “*How do we change?*” ensures that proper planning, execution and management are done to achieve the desired results from the change initiative.

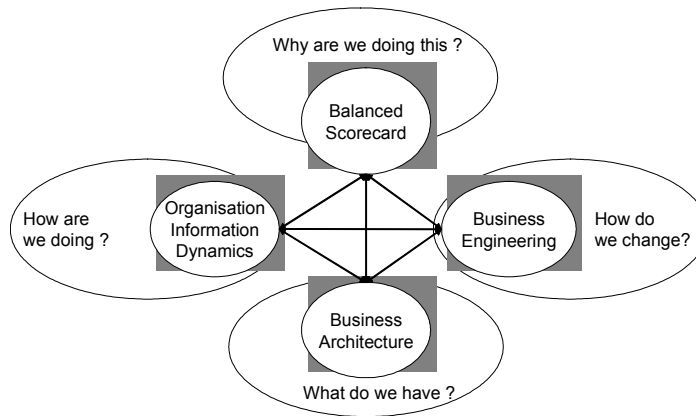


Figure 3 Framework Components

CASE STUDY

The enterprise portfolio approach has been developed and tested over the years across a number of industries in South Africa, as well as in Europe. The approach can either be used to manage optimisation initiatives in existing operations, or to design, build and implement new operations. The following case study is presented to demonstrate how the approach is used to translate business

strategy into the design and implementation of new operations for the South African Government in the recently established third tier banking industry.

Background

The first democratically elected government has been faced with unprecedented levels of unemployment and poverty, in particular amongst the historically disadvantaged black communities (SAMAF, 2005). The Department of Trade and Industry (DTI) is charged with the responsibility of devising strategies and actions to address these poverty issues, mainly through job creation to stimulate economic activities. As such, the DTI has formed a new organisation, the South African Micro-finance Apex Fund (SAMAF) to focus on providing financial services for the very small and micro enterprises (VSMEs). These services include, but are not limited to, savings, loans, shares, and insurance products (SAMAF, 2005).

Business Strategy

The mission of SAMAF is to provide professional and customised services to partner organisations (micro finance institutions), through savings mobilisation, lending capital, capacity building, and institutional development funds, to broaden and deepen access to financial services by the poor in order to facilitate their participation in productive economic activities and smoothing their financial troughs for a better livelihood (SAMAF, 2005).

The value chain of SAMAF encompasses the core capabilities of marketing, capacity building, lending operations and risk management. The main services delivered through these core capabilities are:

- i) Provision of Micro Entrepreneur Loans
- ii) Provision of Poverty Alleviation loans
- iii) Provision of Institutional Capacity Grants and Loans

For purposes of the case study, the product, Institutional Capacity Grants and Loans (ICGL) is selected to demonstrate the enterprise portfolio approach. The purpose of the ICGL is to provide grant funding to the Partner Organisation (PO) in order to develop the institutional capacity of the PO to deliver micro finance services to the PO client. Institutional capacity of the PO, will include, but not be limited to, the following organisational elements:

- i) People (board, management, employees and clients)
- ii) Management planning and control activities of the PO
- iii) Resources (infrastructure, telecoms, systems, offices, etc.)
- iv) Processes for all management, support and operations
- v) Policies, procedures, forms, documents and training material
- vi) Appropriate PO product design and products

Organisation Information & Balanced Scorecard

From the balanced scorecard, the following performance objectives support the Institutional Capacity Grants value chain (table 2).

Table 2 Balanced Scorecard Extract

Strategy	Performance Objectives	Measures
Professional and customized services	Cost to Income Ratio	Ratio (Cost/Income)
Broadening and deepening of access to financial services	Outreach	Number of clients per PO
Facilitate participation	Capacity Building	Rating Scale (0 to 5)

Business Engineering & Business Architecture

Figure 5 depicts the scope of designing business processes to deliver according to best practice business architecture principles. Complete design specifications for the business process include, but are not limited to, policies, procedures, job descriptions, product specifications, and references to information technology systems.

Complete description of the business process allows the team to manage business process content, enables workflow implementation, and ensures that proper and complete operational training manuals are delivered. This integrates with the project management process to enable delivery of required change initiatives in the implementation process.

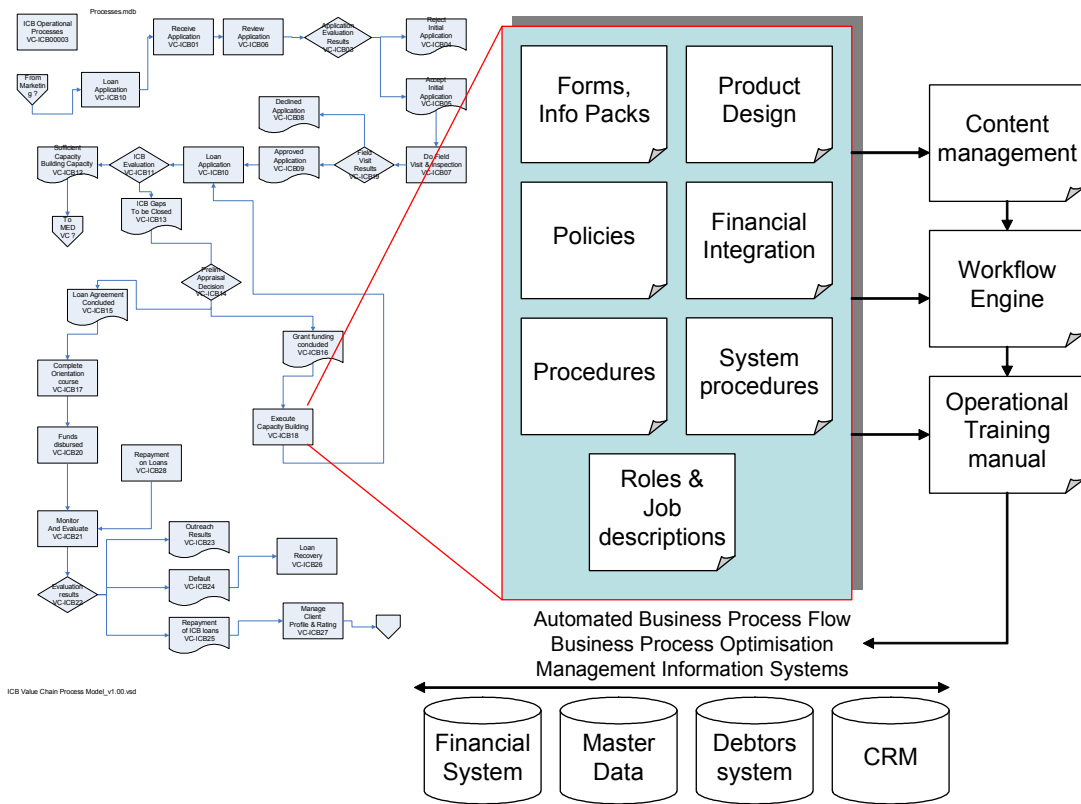


Figure 5 Business Process Knowledge Domain Design

CONCLUSION

Implementation of the approach cannot be applied in a cookbook recipe fashion as it relies on the application of a large number of disciplines, skills, and competency areas. Thus, a pragmatic philosophical approach is followed when implementing the enterprise portfolio, guided by a core set of values and principles to ensure successful implementation. In the experience of the author, a number of critical success factors need to be considered during this process.

The first success factor is to understand and comprehend the business strategy. In many organisations, business strategy is not clearly understood by the employee, thus making it very difficult for the employee to relate to clear and consistent objectives and performance measures. The obvious issue is that if an individual employee cannot identify and measure a target within the context of business strategy, then to optimise and improve becomes difficult.

The second success factor deals with management information. Management information needs to exist through applications, techniques and reports to produce a stream of relevant information that supports decision making. In the absence of relevant and applicable information on performance measures, baselines and performance levels, management of optimisation initiatives becomes virtually impossible.

The third success factor deals with employee capability to understand the context of change, the extent of change, and risks and impacts to be considered in the change process. If this lacks in the change initiative, the ability to change becomes severely hampered in the organisation.

The final success factor addresses financial information and financial systems in the organisation. The basic process and system design of the organisation should ensure that financial information does not form a lagging indicator in the business, but rather a leading indicator as financial information ultimately depicts the well-being of the business. This means that financial information design should focus on timeously integrated and well-translated information that depicts bottom-line financial results. Again, if this approach and design is lacking, measurement of optimisation impact becomes difficult.

The enterprise portfolio approach aims to provide a well-balanced framework of capability areas, which assist and enable the organisation to manage optimisation initiatives. These initiatives must contribute to the well-being and optimal performance of the organisation, and its stakeholders.

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