How to Design Strategic Portfolios Using Business Architecture

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By Analyst(s): Lucas Kobat, James Boyle

Initiatives: Enterprise Architecture; Strategic Portfolio Management

Efforts to enable enterprise outcomes through business and operating model design fail unless connected to portfolio design work. Enterprise architecture leaders must contribute to portfolio design using business architecture to close the strategy-to-execution gap.

Overview

Key Findings

- Portfolios designed without collaboration with enterprise architecture (EA) result in execution of initiatives that do not align with, or mature to, capabilities critical for an organization's future state.
- Portfolio decisions are often uninformed because portfolio views have not been tailored to meet executives' needs and expectations.
- Small undetected changes, rather than large observable disruptions, often cause enterprise and portfolio-level strategies to diverge, furthering the strategy-to-execution gap.

Recommendations

Enterprise architecture leaders focused on strategic portfolio design must:

- Ensure portfolios are aligned with business outcomes by using select business architecture techniques in collaboration with strategic portfolio (SP) leaders.
- Identify and help fulfill portfolio design needs by tailoring portfolio views to executive temperament, enabling informed decisions for how organizations can achieve their targeted business outcomes.

- Provide ongoing portfolio and roadmap refinement by complementing traditional planning with trigger-based reprioritization to prevent divergence from enterprise strategy.

Introduction

Enterprise architecture groups and enterprise portfolio management offices (EPMO) are both planning functions. Historically, EA was responsible for identifying investments aligned with targeted business outcomes that would move an organization closer to its desired future state. These investments would then be plotted on roadmaps, which were divided into manageable sections and cascaded to relevant portfolios. Depending on the initiative, the relevant portfolio might reside within a business unit, IT or other functional area.

However, historical trends are breaking as EPMOs increasingly develop strategic portfolio management capabilities. One of these capabilities is portfolio design. Portfolio design includes analysis of the impact and implications of strategic investments and the framing of those investments for decision makers. Framing may include capacity, dependencies or alignment to outcomes. EA's responsibilities of business and operating model design are closely related. This is because changes to the way an organization generates value, or the way it carries out work, change the type of investments that should be made to realize an organization's desired future state. Thus, organizations with EA and EPMO functions executing their planning mandates in silos are potentially creating design conflicts. This conflict can lead to poor investment decisions, misguided prioritization and delays in value and outcome delivery.

> Key Terms
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> - **Strategic portfolio management** *is a discipline used to continuously create and execute portfolios of strategic options that focus an organization's finite resources to execute enterprisewide business strategy.*
> - **Portfolio design** *enables portfolio decision makers to make the most effective decisions possible by creating portfolio views of the projects, programs, and/or products that meet their execution styles and business needs.*
> - **Business architecture** *is a domain of enterprise architecture focused on designing and executing business and operating models.*

How, and to what extent, should EA and EPMO functions work together on planning efforts? EA and SP leaders, responsible for the EPMO, should partner their functions to collaboratively design strategic portfolios by using business architecture to avoid siloed planning and the risk of delaying value delivery.

Analysis

Align Portfolios With Business Outcomes

EA and SP leaders have planning responsibilities across long-term, midterm and short-term planning horizons. To be effective, EA and SP leaders must work together to create clear connections across the three horizons from long-term strategic outcomes, through capabilities contained within midterm roadmaps, to individual projects, programs and products within short-term execution. We outline the responsibilities EA and SP leaders have, relevant to aligning portfolios with business outcomes, across the three time horizons in Table 1.

Table 1: EA and SP Leader Responsibilities Across the Three Planning Horizons

Time Horizon	EA Leader	SP Leader
Short Term (6-12 Months)	Ensure portfolios, and their underlying projects, programs and products are aligned to targeted business outcomes and prioritized in accordance with the strategic roadmap.	Execute underlying projects, programs and/or products within portfolio-level roadmaps to operationalize capabilities by sequencing and reprioritizing as needed using a combination of cadence and trigger-based methods to deliver outcomes.
Midterm (12-24 Months)	Work across business domains to define the investments needed to mature capabilities aligned to targeted business outcomes, leading to the formulation of a strategic roadmap and distinct sets of portfolios.	Work closely with EA and business leaders to sequence and define work from the strategic roadmaps to the portfolios. Plan for investments by ensuring required execution capacity and maturity is available within portfolios to support the prioritized work across the enterprise.
Long Term (3-5 Years)	Work with executive leadership teams to evaluate and form responses to developing trends, identifying opportunities for innovation within targeted business outcomes.	Ensure that resource management and investment plans inform and reflect identified responses to developing trends toward outcomes and have flexibility to accommodate transformative change.

Source: Gartner (December 2022)

EA and SP leaders must work together to define and align portfolios with the strategic roadmap in the midterm planning horizon. The respective leaders can select fit-for-purpose business architecture techniques to help translate business direction into sets of distinct portfolios established to deliver outcomes. One technique fit for this purpose is journey mapping. Journey mapping is a process of understanding a customer's or an employee's desired journey. For end-to-end guidance on building a journey map, see Ignition Guide to Building a Customer Experience Journey Map.

Understanding desired journeys helps to reveal gaps in current experiences an organization offers its customers and employees. These gaps should be filled by initiatives from the strategic roadmap that are prioritized according to business need. The result is a portfolio or a grouping of initiatives intended to deliver business outcomes. TD Bank is one organization that aligns its portfolios in accordance with its journey maps.

> **Case in Point: Building Blocks for Product Funding (TD Bank)**
>
> TD Bank's leadership faced dual pressure from changing customer expectations and fintech startups to offer a competitive digital experience. TD Bank aligned people, process and technology with customer journeys across the personal banking sector to advance customer centricity, establishing teams of both IT and business staff within the personal banking segment of the business. In doing so, they connected cascading objectives and key results (OKRs) to the three strategic horizons to bring transparency to the cultural and temperament shifts desired at all elevations of the enterprise to realize their collective outcomes: senior executive (long term), journey (midterm) and delivery (short term).

Identify and Fulfill Portfolio Design Needs

Once portfolios are aligned to business outcomes, they must be designed in a way that informs senior business and IT leadership of optimal decisions regarding funding levels, resourcing needs and sequencing of initiatives. SP leaders are often tasked with creating portfolio views that accomplish this. EA leaders should assist SP leaders in their efforts by identifying executives' preferred decision styles. Select business architecture techniques should then be used to meet those preferences.

If an executive's preferred decision style is unknown, it must be discovered before portfolio views can be tailored to it. Decision styles should be identified through observation of temperament and then validated through interaction. Temperament can be observed by analyzing an executive's openness to persuasion and desire for control.

Executives responsible for sponsoring portfolios often fall into one of four temperament categories. EA leaders should use Table 2 to identify which business architecture techniques are best-suited to frame portfolio decisions, assisting SP leaders — especially those leading an EPMO — in providing an informed perspective to decision makers.

Table 2: EA and SP Leader Actions for Tailoring Portfolio Views to Executive Temperaments

Temperament	How to Tailor Portfolio Views
Abdicator: Desires to protect their own time at all costs and wants little to do with the portfolio.	Use **scenario planning** to build a menu of portfolio options an abdicator can quickly select from. Clear options will limit executive involvement while ensuring an informed decision is made.
Opportunist: Desires to achieve what they want, not necessarily what is needed from the portfolio.	Use **business outcome statements** to highlight how portfolios must be aligned back to business direction. Include options for how the opportunist's wants can be realized — either fully or partially — alongside targeted business outcomes.
Cowboy: Desires speed to market from initiatives within the portfolio.	Use **value stream mapping** to build workflows within the portfolio that will speed delivery. Have the cowboy validate that the right workflows — and components of those workflows — have been prioritized.
Entrepreneur: Desires the delivery of a portfolio's stated business outcomes.	Use **interdependency roadmaps** to educate entrepreneurs on how seemingly unrelated decisions can impact outcomes. Don't expect the executive will understand how all decisions ultimately impact portfolio returns.

Source: Gartner (December 2022)

EA and SP leaders can tailor roadmaps and ensuing portfolio views using business architecture techniques. A business architecture lens ensures portfolio investment implications, impacts and risks are proactively managed, especially in relation to business and operating model design.

One useful technique — regardless of executive temperament — for exploring implications, impacts and risks is a business capability model. Business capability models help illustrate how people, processes, information and technologies need to change to achieve business outcomes. Using this illustration, EA and SP leaders can help executives visualize trade-offs and adjustments in the way resources are combined to deliver customer-perceived value (see Tool: Business Architecture Activities and Deliverables Close the Strategy-to-Execution Gap).

Business capability models can be augmented with overlays depicting maturity, risk, cost, value and other views to provide optionality for customer preferences. The case in point below highlights how Nationwide Building Society's EA and SP leaders use a business capability model to create portfolio views for decision makers, revealing optimal investments that will achieve business outcomes.

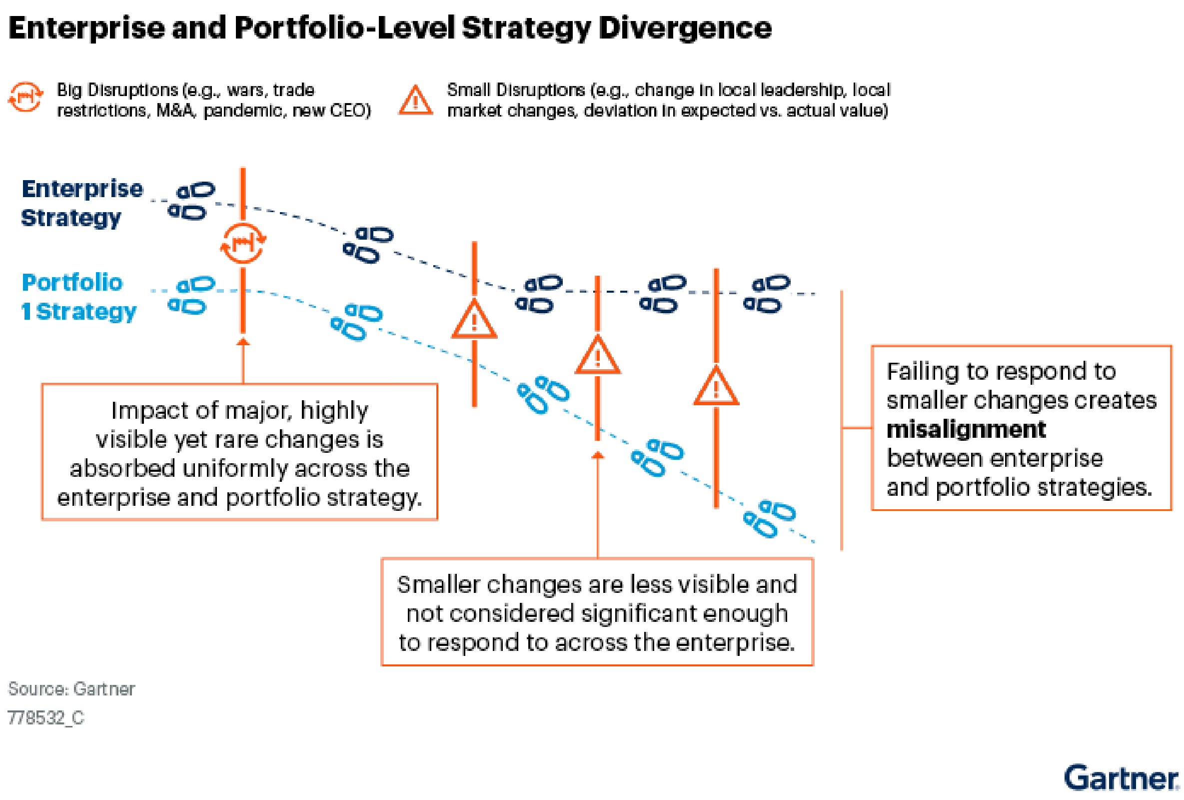
> **Case in Point: Activist Portfolio Stewardship (Nationwide Building Society)**
>
> Nationwide
>
> Nationwide's investment allocation lacked strategic focus and often led to portfolio overspend. Its SP leader helps create a more objective approach to investment allocation by working with EA to identify critical business capability gaps and prioritizing them. The result is nearly a 19% increase in funding allocated to Tier 1 strategic priorities, indicating appropriate portfolio views help decision makers choose the right investments.

Provide Ongoing Portfolio Recommendations

EA and SP leaders extend considerable effort building strategic plans, roadmaps and portfolios with business leaders to bring outcomes to life. However, once built, these deliverables need to weather a significant amount of disruption and change. Organizations recognize this. Board members noted in the 2022 Gartner Board of Directors Survey that competitors' disruptive business models and social trends are top risks to performance. [1]

These disruptions and changes can mean trouble for the delivery of targeted business outcomes. However, big, highly visible disruptions like a pandemic, war or M&A are significant enough that strategies and portfolios can respond in lockstep. It's not the big disruptions that cause enterprise and portfolio-level strategies to diverge. Instead, it's the smaller, less observable changes like delays in initiatives or a new entrant in a regional market that accumulate and lead to wide deviations over time (see Figure 1).

Figure 1. Enterprise and Portfolio-Level Strategy Divergence



In a recent survey of SP leaders, we found that organizations effective at portfolio management are two times more likely to have the ability to respond to changes and disruptions than organizations that are not effective at portfolio management. [2] Active reprioritization of portfolios is critical to these abilities. Often, organizations try to improve reprioritization by focusing on process. Specifically, introduction of more frequent prioritization cadences is common. While these process changes help organizations to reprioritize at set points, and are important as a foundation, they are often not enough.

To enable coordinated execution of business value at speed, EA and SP leaders must work with business and executive leadership to embrace a new mindset and behaviors. Responding to changes as they occur, sometimes even continuously, is starkly different from responding at set governance checkpoints. EA and SP leaders need to work to complement cadence-based portfolio reprioritization posture with a responsive portfolio reprioritization posture. SP leaders can lead the refinement or formation of an EPMO, ensuring ongoing planning and execution between EA and SP leaders, and executive leadership. This provides a sustaining mechanism for portfolio decision making, including reprioritization, and maintaining a cadence of strategic planning and communication, especially with the pace of emergent responses to change.

ElevenShift* is one organization that brought this responsive reprioritization posture to bear. ElevenShift* worked to break traditional, cadence-based reprioritization processes by teaching business partners to identify triggers that warrant a reexamination of a portfolio. These triggers could include a program not tracking to value or a competitor introducing a new product or service. The latter is an external trigger that can be difficult to track, but business architecture techniques like ecosystem modeling can help.

> **Case in Point: Responsive Portfolio Management Decisions for Business Leaders (ElevenShift*)**
>
> ElevenShift* makes off-cycle reprioritization the dominant business leader mindset and pairs that with flexible funding practices. The organization does this by first forming a manifesto on how leaders should operate, encouraging flexibility in changing directions dynamically. It also makes responsive reprioritization a "team sport," using internal "press releases" to involve peers in cross-enterprise reprioritization decisions. These efforts resulted in a 15% increase in portfolio funds and initiatives aligned with targeted business outcomes, even as those outcomes changed over time.
>
> * Pseudonym

Evidence

[1] 2023 Board of Directors Survey: Business Strategy in an Uncertain World

[2] Effective Strategic Portfolio Management Drives Better Business Outcomes

Disclaimer: The organization (or organizations) profiled in this research is (or are) provided for illustrative purposes only, and does (or do) not constitute an exhaustive list of examples in this field nor an endorsement by Gartner of the organization or its offerings.

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Tool: Business Architecture Activities and Deliverables Close the Strategy-to-Execution Gap

Role of Business Architecture in Digital Business: Benchmark Data

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