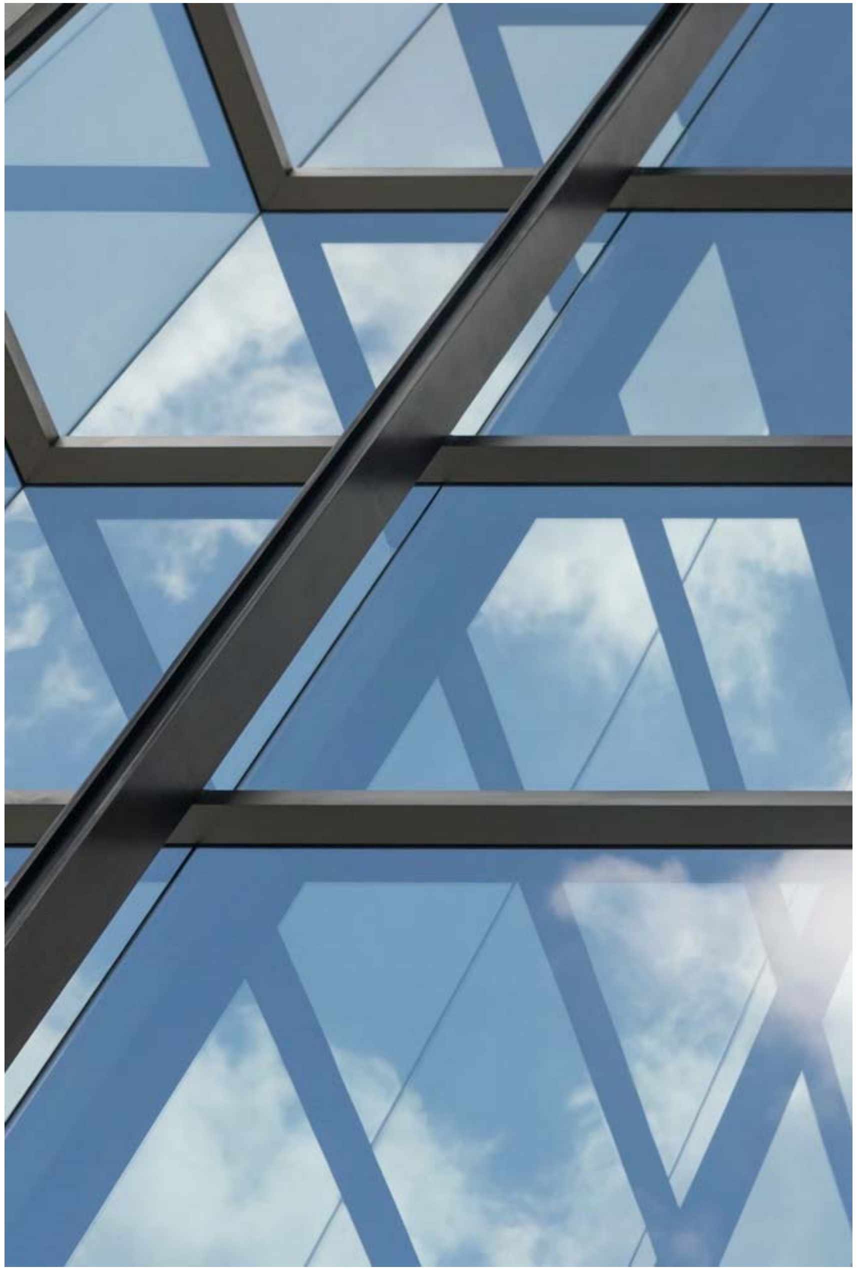
PMGT 5879 -
Strategic Portfolio & Program Management
Topic 1 – Strategy

Harold Ainsworth

THE UNIVERSITY OF SYDNEY



Agenda

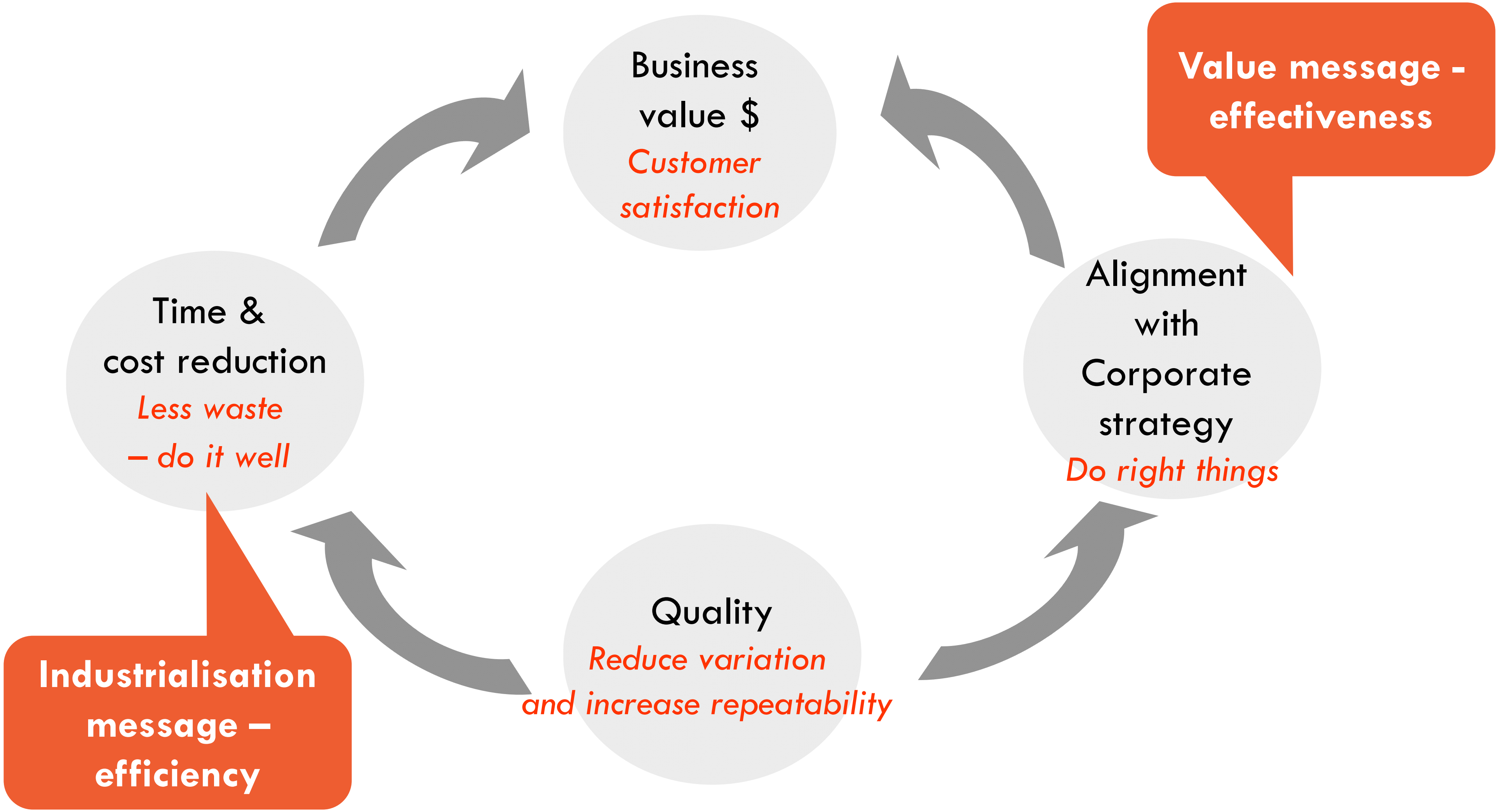
- What is “Value”
- Reasons for failure in strategy implementation
- Understanding the connections is important
- Disciplined execution

The Language of "value"

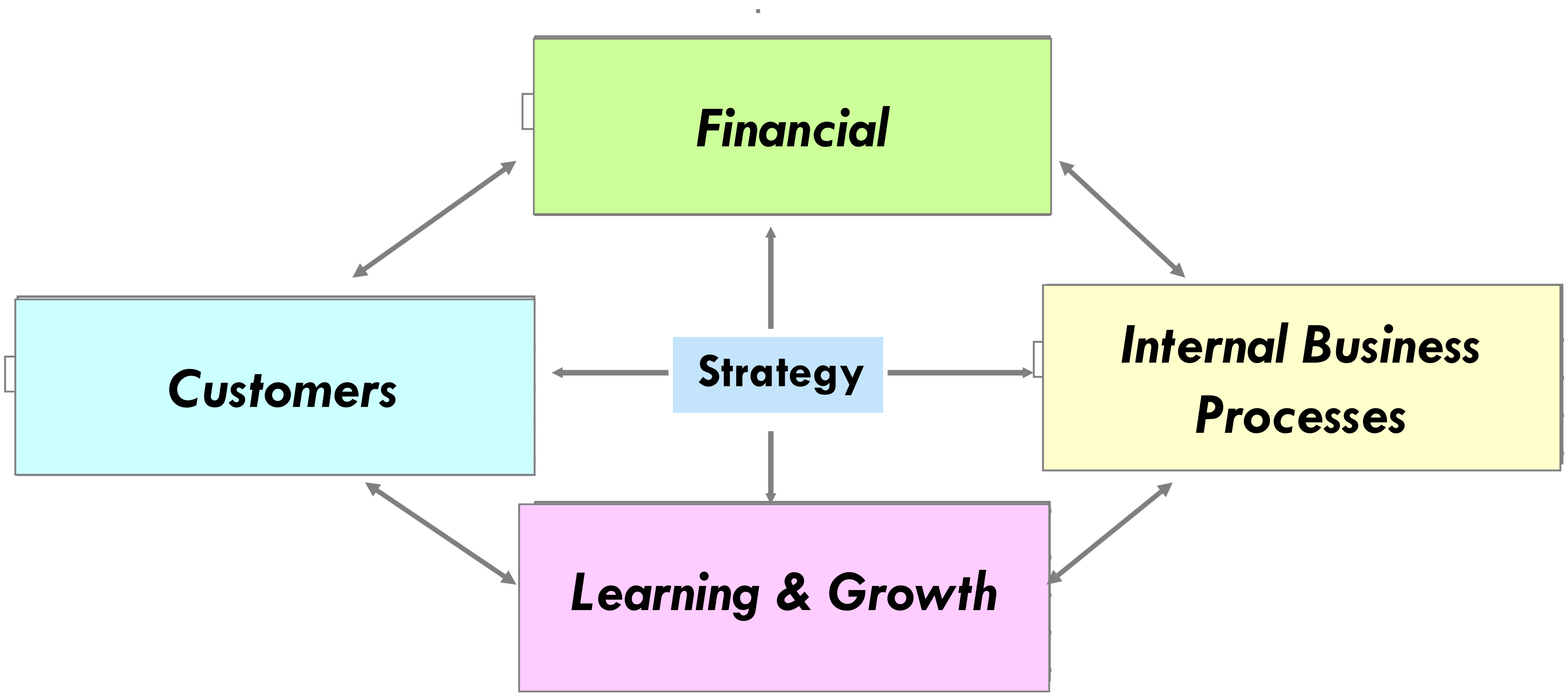
Who	Financial	Non-financial	Later
CEO / Board	Share price	Stakeholder value Achieve strategic objectives	Manage Risk, Survival
CFO	ROI	Resource efficiency	New innovations
CIO	Reduce IT costs	Align with business objectives	Partner to enable the business
COO or Business Managers	More revenue and / or less costs	Efficiency – more productive, improve service levels Support achievement of KPI's	Build a sustainable capability

Value is contextual

Current business drivers?



Four Perspectives of the Balanced Scorecard



Source: Kaplan , RS & Norton, DP (1996), *The Balanced Scorecard*, Harvard Business School Press, Boston

Strategy - performance against potential

– 63 % - most strategies only deliver on average 63 % of their potential financial performance
– 37% - is lost for reasons on next slide

Michael C Mankins and Richard Steel, 2005, Turning Great Strategy into Great Performance , Harvard Business Review, July-August

Strategy - 37% Average Performance Loss

% loss	Reason
7.5	Inadequate or unavailable resources
5.2	Poorly communicated strategy
4.5	Action required to execute not clearly defined
4.1	Unclear accountabilities for execution
3.7	Organisation silos or culture blocks execution
3.0	Inadequate performance monitoring
3.0	Inadequate consequences or rewards for failure or success
2.6	Poor senior leadership
1.0	Uncommitted leadership
0.7	Unapproved strategy
0.7	Other obstacles

Michael C Mankins and Richard Steel, 2005, Turning Great Strategy into Great Performance , Harvard Business Review, July-August

Strategy - 7 rules to succeed (1)

- Keep it simple – make it concrete
- Debate assumptions not forecasts – it is more than bargaining
- Use a rigorous framework, speak a common language – enables management to know if strategy is incorrect or execution failed
- Discuss resource deployments early

Also see www.mckinseyquarterly.com for many other article on strategy

Michael C Mankins and Richard Steel, 2005, Turning Great Strategy into Great Performance , Harvard Business Review, July-August

Strategy - 7 rules to succeed (2)

- Clearly identify priorities – with actions, time frames, KPI's
- Continuously monitor performance – test assumptions and allows adjustments
- Reward and develop execution capabilities

- ***Closing the gap enables performance improvement between 60 – 100 % Also there is cultural multiplier effect that allows even greater improvements in future including transforming the company***

Michael C Mankins and Richard Steel, 2005, Turning Great Strategy into Great Performance , Harvard Business Review, July-August

Distortions & Deceptions in strategic decisions 1

Need to see decisions not in isolation but as a portfolio with balance

Distortions	
Over-optimism	Unrealistic forecasts
Loss Aversion	Experience losses more acutely than gains
Over confidence	Human tendency

McKinsey Quarterly, Dec 2005, Dan Lovallo, Oliver Sibony, “Distortions & Deceptions in strategic decisions”

Distortions & Deceptions in strategic decisions 2

Deceptions	
Misaligned time horizon	Favouring short term results in persons own time frame
Misaligned Risk aversion	Personal risk aversion not aligned with company situation
Champion bias	Too much emphasis on person proposing the initiative
“Sunflower management”	Alignment with leaders real or assumed viewpoint

McKinsey Quarterly, Dec 2005, Dan Lovallo, Oliver Sibony, “Distortions & Deceptions in strategic decisions”

Distortions & Deceptions in strategic decisions 3

Engineering better decisions

- Identifying the problem
  - Analysis of past decisions
  - Look at decision making process - where does problem occur
- Tools
  - Independent 2nd opinion
  - Alternative / next best idea to be provided
- Fostering culture of open debate
  - Alternative “champion”
  - Frame conversations to get right question asked / answered

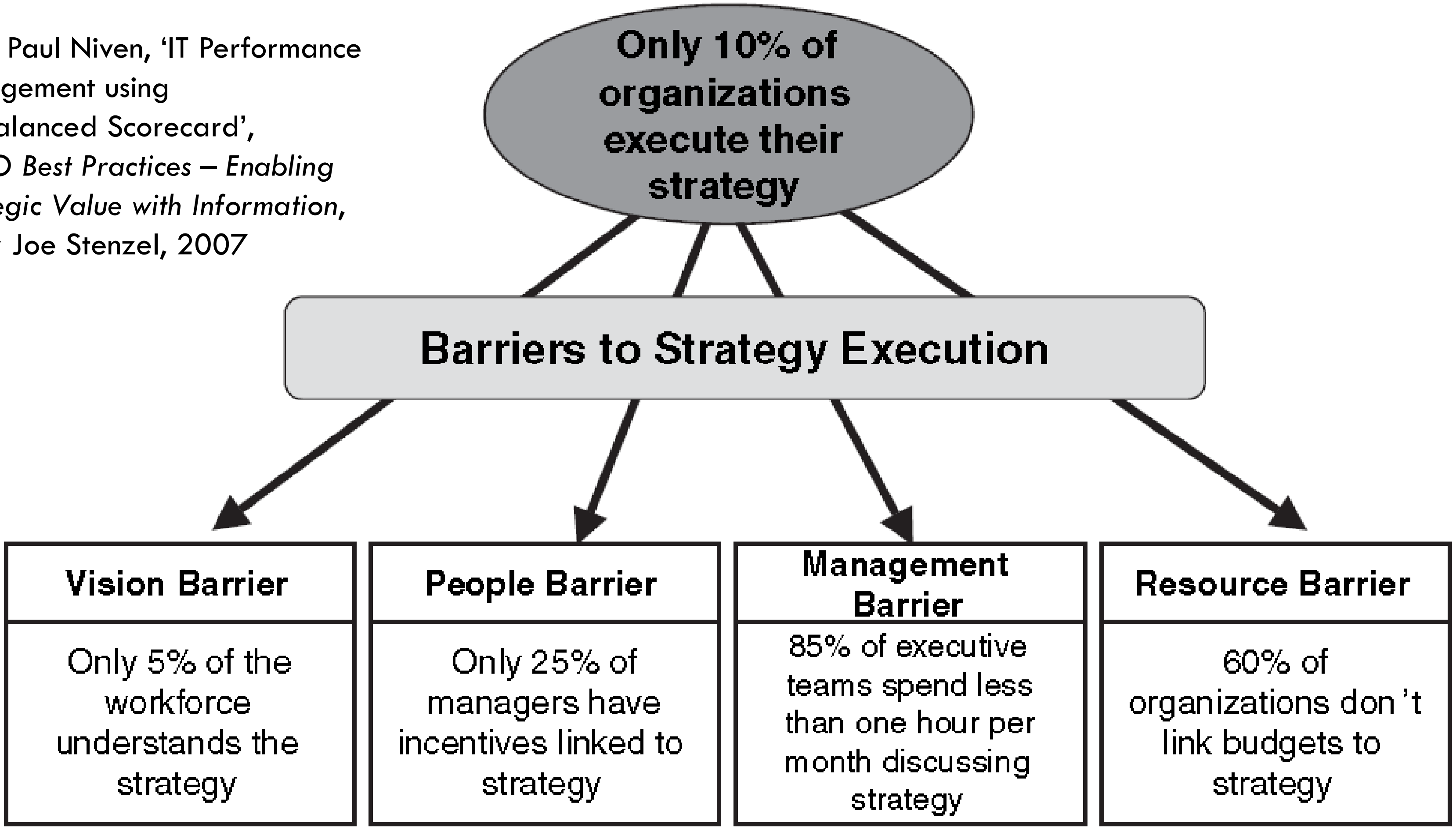
McKinsey Quarterly, Dec 2005, Dan Lovallo, Oliver Sibony, “Distortions & Deceptions in strategic decisions”

How KPI's can distort

- Do KPI's set up groups against each other?
- Example:
  - Procurement is targeted on finding cheapest alternative
  - There is no penalty against them if the selected supplier does not work and causes disruption to the operations group
  - Operation group KPI's are impacted because supplier does not perform
  - Both groups need to have related KPI's

Barriers to strategy execution

From: Paul Niven, 'IT Performance management using the Balanced Scorecard', in *CIO Best Practices – Enabling Strategic Value with Information*, Ed by Joe Stenzel, 2007



Adapted from material developed by Robert S. Kaplan and David P. Norton

EXHIBIT 5.2 The Barriers to Implementing Strategy

Hidden flaws in strategy - Summary

– Draws on insights from behavioural economics
– Attempting to explain why good executives back bad strategies
– Lists 8 flaws in their thinking
– Aligns with other material – such as Daniel Kahneman, 2011 - “Thinking, Fast and Slow”

Charles Roxburgh, (2003) “Hidden flaws in strategy” The McKinsey Quarterly 2003 Number 3

Flaws 1- 4

Flaw 1 - overconfidence	•Overconfident about and abilities •Test strategies under a much wider range of scenarios •Add 20 to 25% more downside to the most pessimistic scenario •Build more flexibility and options into your strategy to deal with downside
Flaw 2 - mental accounting	•Make sure that all investments are judged on consistent criteria •It doesn't matter how to spend is classified – eg infrastructure, strategic etc - it is money all the same
Flaw 3 - the status quo bias	•Concerned about the risk of loss more than they are excited by the prospect of gain •Subject status quo options to a risk analysis as rigorous as change options receive
Flaw 4 - anchoring	•Tendency to linked numbers to past performance irrespective of evidence they will continue

Charles Roxburgh, (2003) "Hidden flaws in strategy" The McKinsey Quarterly 2003 Number 3

Flaws 5-8

Flaw 5 – the sunk cost effect	•Unable to kill off bad investments because of the money already spent •Rigorous and effective gating required
Flaw 6 – the herding instinct	•For most CEOs, only one thing is worse than making a huge strategic mistake: being the only person in the industry to make it •Therefore follow the trend
Flaw 7 - misestimating future hedonic states (pleasure)	•People are bad at estimating how much pleasure or pain they will feel if their circumstances change dramatically •People adjust surprisingly quickly to new situations
Flaw 8 – false consensus	•Overestimation as to the extent to which others share their beliefs: •Confirmation bias •Selective recall •Biased evaluation (accepting evidence that supports our view) •Groupthink

Charles Roxburgh, (2003) "Hidden flaws in strategy" The McKinsey Quarterly 2003 Number 3

Six silent killers

- Top-down or laissez-faire management style
- Unclear strategy and conflicting priorities
- An ineffective senior management team
- Poor vertical communication
- Poor coordination across functions, business or borders
- Inadequate down-the-line leadership skills and development

- *Why silent?*
  - *Rarely acknowledged*
  - *Or explicitly addressed*
  - Each one is problem but taken together they create a vicious circle

Beer, M & Eisenstat, R (2000) "The Six Silent Killers of Strategy Implementation and Learning", Sloan Management Review, Summer 2000

Six silent killers – three categories

1. Quality of Direction – lack of direction, unclear accountabilities, ineffective management team, difficult issues avoided, lack of priorities
2. Quality of Learning – little upwards communications, or early warning systems, no emotional release of frustration, lack of clarity of how strategy impacts on their work
3. Quality of Implementation – poor coordination across functions, lack of leadership development at middle manager level

Beer, M & Eisenstat, R (2000) “The Six Silent Killers of Strategy Implementation and Learning”, Sloan Management Review, Summer 2000

Six core capabilities to be developed

1. Leadership style that embraces top down direction and upwards influence
2. Clear strategy and clear priorities
3. An effective top team
4. Open vertical communication
5. Effective coordination
6. Down-the-line leadership – at middle manager level

Beer, M & Eisenstat, R (2000) “The Six Silent Killers of Strategy Implementation and Learning”, Sloan Management Review, Summer 2000

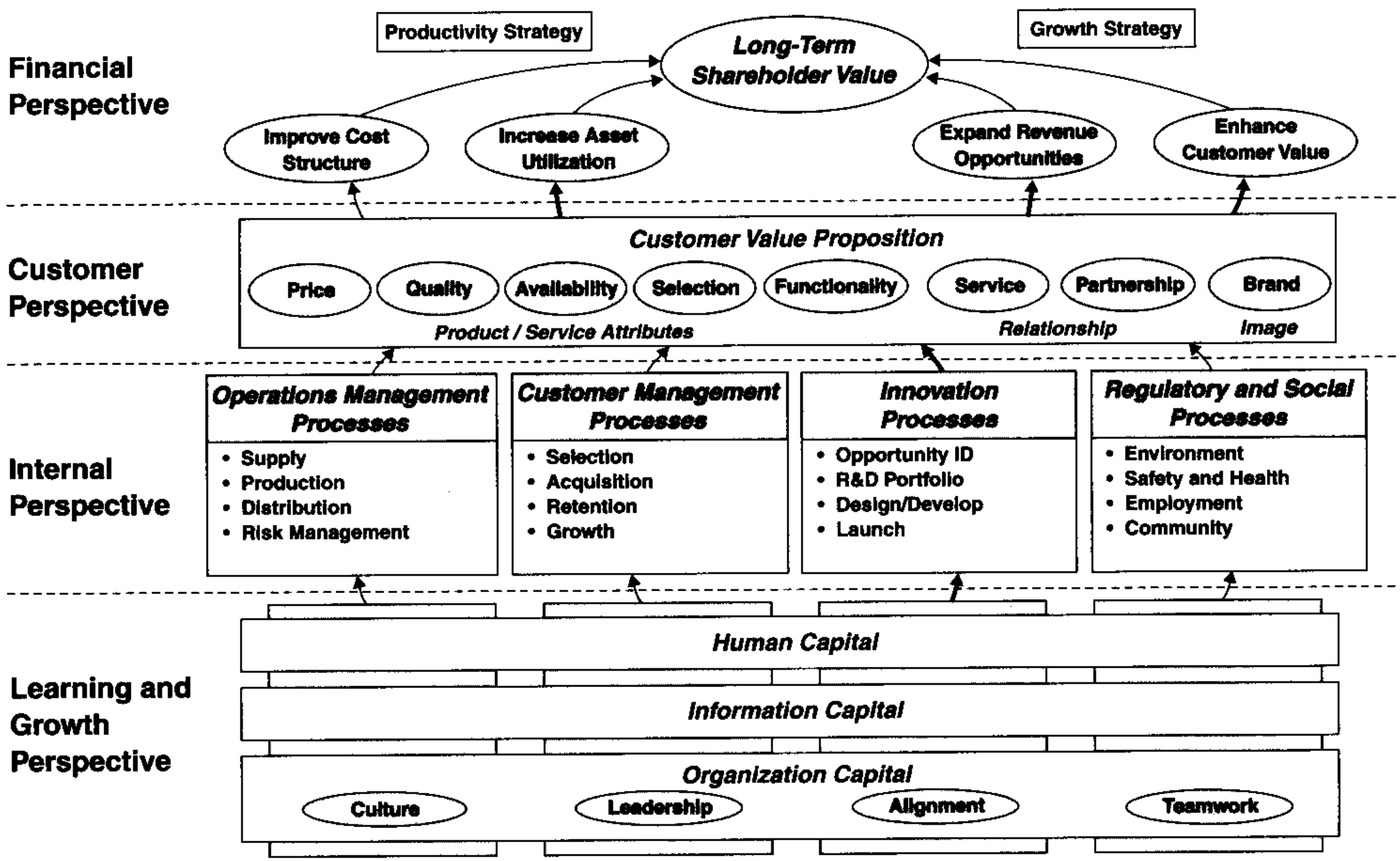
Demonstrating the connections between strategy and specific initiatives

On the following slides we show samples of the following techniques:

– Strategy Maps – Kaplan and Norton
– Benefits Dependency Network – Cranfield Uni
– Results Chain or Business Outcome maps – The Information Paradox, John Thorp
– Tables

Strategy Maps

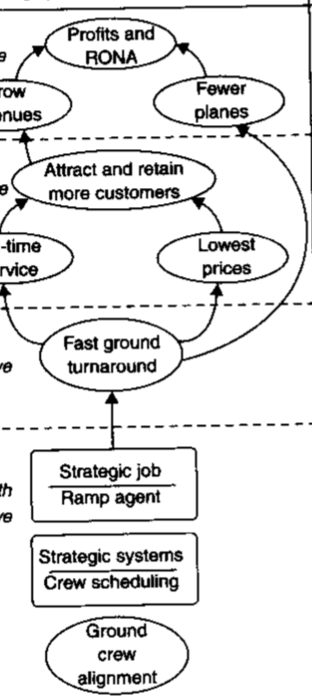
Figure 1-3 A Strategy Map Represents How the Organization Creates Value



Source: Kaplan, R and Norton, D 2004 “Strategy Maps”, Harvard, Boston

Strategy Maps

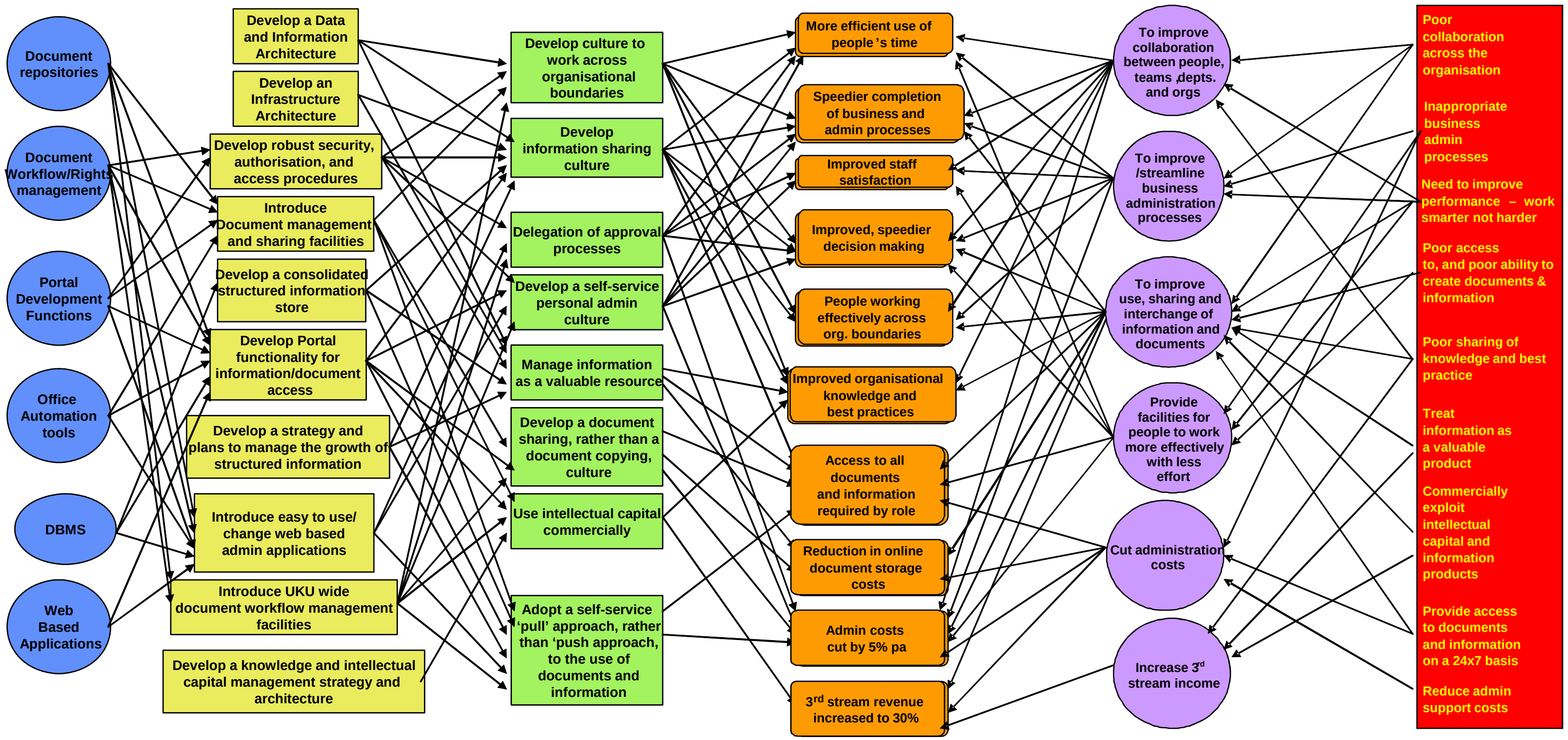
Figure 2-10 A Strategic Theme Defines the Process, Intangible Assets, Targets, and Initiatives Required to Execute a Piece of the Strategy



Strategy Map		Balanced Scorecard		Action Plan	
Process: **Operations Management** **Theme:** **Ground Turnaround**	**Objectives**	**Measurement**	**Target**	**Initiative**	**Budget**
Financial Perspective	▪ Profitability ▪ Grow revenues ▪ Fewer planes	▪ Market value ▪ Seat revenue ▪ Plane lease cost	▪ 30% CAGR ▪ 20% CAGR ▪ 5% CAGR		
Customer Perspective	▪ Attract and retain more customers ▪ Flight is on time ▪ Lowest prices	▪ # repeat customers ▪ # customers ▪ FAA on-time arrival rating ▪ Customer ranking	▪ 70% ▪ Increase 12% annually ▪ #1 ▪ #1	▪ Implement CRM system ▪ Quality management ▪ Customer loyalty program	▪ $XXX ▪ $XXX ▪ $XXX
Internal Perspective	▪ Fast ground turnaround	▪ On-ground time ▪ On-time departure	▪ 30 minutes ▪ 90%	▪ Cycle-time optimization	▪ $XXX
Learning and Growth Perspective	▪ Develop the necessary skills ▪ Develop the support system ▪ Ground crew aligned with strategy	▪ Strategic job readiness ▪ Info system availability ▪ Strategic awareness ▪ % ground crew stockholders	▪ Yr. 1–70% Yr. 3–90% Yr. 5–100% ▪ 100% ▪ 100% ▪ 100%	▪ Ground crew training ▪ Crew scheduling system rollout ▪ Communications program ▪ Employee Stock Ownership ▪ Plan	▪ $XXX ▪ $XXX ▪ $XXX ▪ $XXX
				Total Budget	**$XXXX**

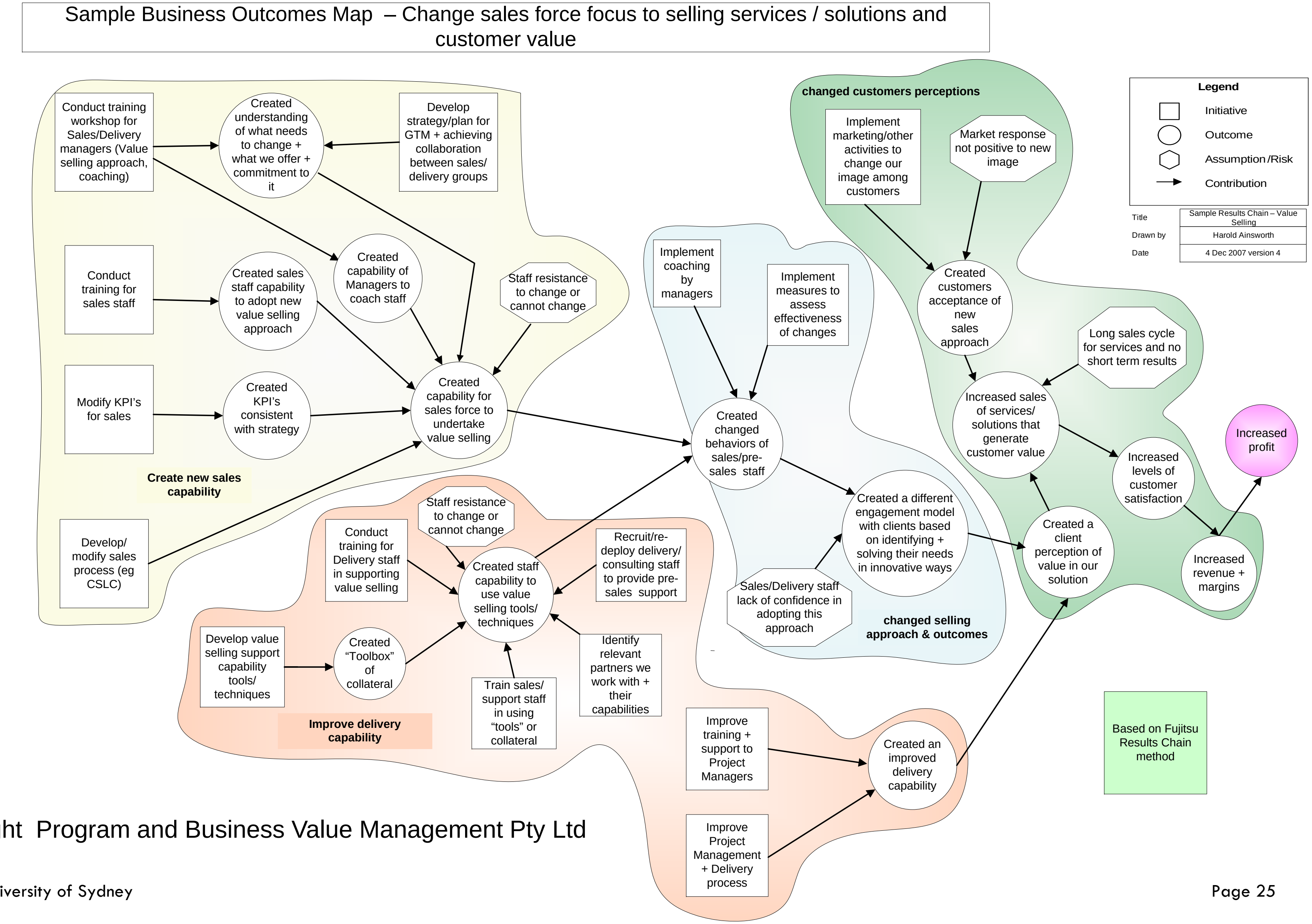
Source: Kaplan, R and Norton, D 2004 "Strategy Maps", Harvard, Boston

Benefits Dependency Network - Linking Business Drivers and IS/IT Projects



Source: Cranfield University School of Management.

Sample Business Outcomes Map



Connecting outcomes

Activity	Enabling capability	Other changes required	Interim outcomes	Final Benefits / outcomes	Objectives
Notes: Enabling capability – output from project work Other changes - other action required to turn capability into benefit Benefits / outcome – final benefit sought – include in benefits register					

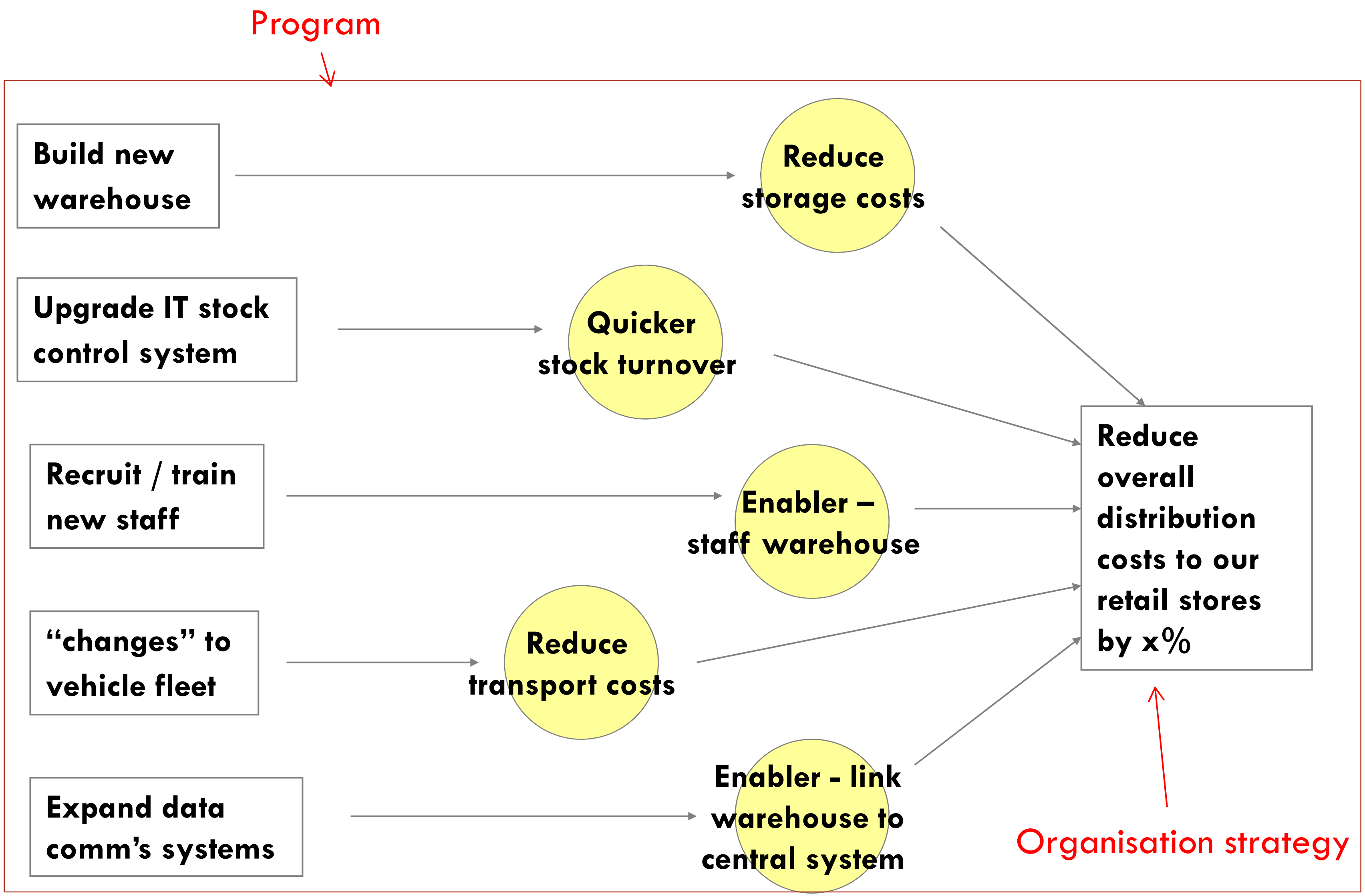
Above is a possible chart to enhance understanding of outcomes in business case

Disciplined execution

Portfolio and Program Management can provide a disciplined approach to Execution of strategy, if set up correctly:

- Provides a basis for allocating funds and resources;
- Provides criteria for decision-making on which initiatives to be selected and their priority;
- Provides a method for monitoring progress and taking corrective action, including dismantling;
- Provides a strong focus on achieving the business outcomes, not just delivering capability;
- Provides a means of integrating various initiatives across organisational groups, in managing the necessary business change required to achieve objectives.

Example of Program of Projects to Implement a Strategy



Example adapted from whitepaper on Benefits Management at www.pm-group.com

Summary

- Strategy implementation is difficult and organizations struggle with it
- A disciplined approach is required and portfolio and program management can provide that
- Strategy is driven by creating value for the organisation
- However there is often not a deep understanding and clear agreement about how this is to be achieved.
- Often it is assumed that achieving the end results will not be difficult, whereas experience shows otherwise
- Techniques to map and understand the journey will assist

Questions