Chapter 6
Adaptive Portfolio Management

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ABSTRACT

Portfolio management methodology is usually linked with the concept of “portfolio cycle” (often 1 year of activities). This means that organizations experience, once a year, a time in which ongoing activities are analyzed and their status reported; new initiatives are collected, assessed, prioritized and selected in competition with ongoing components. Being the aim of portfolio management to select the best set of components supporting the organization in achieving the strategic objectives, strategy should drive the preparation of the “next portfolio cycle”. It may be the case that the strategy is not clear, not ready to be used, not stable. Adaptive Portfolio Management requires to move away from the collect-assess-prioritize-select-implement-control-review approach (all these actions are performed during each and every “portfolio cycle”) towards a more flexible model where organizations manage these important activities “continuously”.

INTRODUCTION

The early days of Strategic Thinking can be traced back to the famous Art of War by Sun Tzu, unanimously considered to be the first treatise on strategy. Written presumably around 500 BC, it is still used today by political representatives, business leaders and thinkers as a source of inspiration. The same can be said, for the book On War published in 1832 by Carl von Clausewitz, Major General in the German Prussian army. Interestingly, among the various insights and principles that can be applied to the business world, both of them speak about how to react to changes or, much better, how to be prepared to face them.

The Art of War teaches us to rely not on the likelihood of the enemy’s not coming, but on our own readiness to receive him; not on the chance of his not attacking, but rather on the fact that we have made our position unassailable (Sheetz-Runkle, 2014). Von Clausewitz firmly believe in the need of a philosophy of strategy that contains the seeds of its constant rejuvenation—a way to chart strategy in an unstable environment (Pietersen, 2016).

As a matter of fact, and as it will be discussed in this chapter, organizations needs strategy for the same reasons that drive the armies’ need for military strategies: to give direction and purpose, to organize
resources in the most effective way and to coordinate the decisions made by different individuals (Grant & Jordan, 2015); these are the fundamentals of strategic management.

Strategic management is such a broad concept that numerous definitions have been given. It can be defined as the art and science of formulating, implementing, and evaluating cross-functional decisions that enable an organization to achieve its objectives (David, 2011). In other words, strategic management refers to the comprehensive collection of activities and processes that organizations put in place to coordinate and align resources and actions with vision, mission and objectives. The formulation of these three basic concept is the first stage of the strategic management process. The vision expresses management’s ambitions expressing the rational “for what and for who” the organization exists. A mission statement is a description of the actual intentions of the organization and usually is less general and more linked to the current situation. An objective (short or long term) is a measurable and quantifiable management commitment to achieve several results. The strategy expresses “how” the organization wants to achieve the strategic objectives. The sequence Vision + mission + objectives + strategy is generally called strategic planning (Thompson, Strickland, Gamble, 2009).

The road to get to this definition starts in the strategy heydays of the second half of the 20th century, when the concept of corporate planning was developed in response to the increasing difficulty the organizations faced in coordinating decisions and maintain control over firms that were growing in size and complexity. This long-term planning (usually with the typical time horizon of five years) sets objectives strategies and goals, forecasting economic trends and guides the organization’s expenditures allocation. However, again due to the turbulent external environment, firms had difficult time in forecasting in detail a five-year span.

As a result, the emphasis given to strategy planning shifted to strategy making through what will be named strategic management, which involves the analysis of both the internal and the external environment, with the aim of optimizing resources in relation to the organizational objectives providing the organization with a framework for anticipating and facing change, in order to develop abilities to cope with uncertainties (Bracker, 1980).

At the present time, to make long lasting effective strategies is even more difficult than years ago in the recent past, maybe so difficult that it should not be attempted at all. Strategic agility, organizational flexibility and resilience are key not only to survive, but also to get competitive advantage (Aurik, Jonk, Fabel, 2014)

Doz and Kosonen (2008) say that most companies die not because they do the wrong things, but because they keep doing the what used to be the right things for too long.

The focus given to strategy in the literature of the 20th century covers mostly the concept of how to make a strategy, rather than how to make it work, (Meskendahl, 2010) which is definitely more difficult (Hrebinia, 2006). This is where project portfolio management practices definitely have a say.

Project Portfolio Management (PPM) manages the identification, assessment, prioritization and selection of the set of components (projects, programs and operations activities) that appear to implement strategy in the best way. To stay in the military vocabulary, Shenhar et al. (2001) point out that projects, and even more project portfolios, are powerful strategic weapons as they turn out to be central building block in implementing the intended strategy of an organization.

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