

# Change Management IN THE STRATEGIC ALIGNMENT OF PROJECT PORTFOLIOS

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# Introduction

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One function of portfolio management is to adjust the portfolio, as needed, to maximize its overall contribution to achieving the organization's strategic initiatives and goals. This may require changes in the mix of projects in the portfolio, including potential project deferrals or terminations. While those changes may be necessary from an overall perspective, individual project stakeholders may think otherwise. This paper details how change management addresses stakeholder expectations when changes to the project portfolio are needed.

There are two key themes: (1) portfolio management is the enabler of strategy execution and (2) management of stakeholder expectations using change management practices embedded in portfolio management is a critical element of robust portfolio management. The implication is that the ineffective management of stakeholder expectations may have an adverse impact on an organization's strategy execution.

The development of this paper included obtaining input and insights about managing change from eight diverse organizations. Interviews were conducted over a three-week period in late February and early March 2015. Those interviews were typically conducted with an individual at an officer level and approximately one half were with the chief executive. The objective was to obtain additional practical insights regarding both the sources and management of change related to project portfolios. The demographics of the eight organizations varied (e.g., workforce from under 100 to nearly 3,000 and revenues from under US\$10 million to nearly US\$1.2 billion). The ages of the organizations ranged from under 20 years to nearly 100 years. The eight organizations represented diverse sectors: manufacturing, healthcare, social assistance, higher education, and information technology. In agreeing to be interviewed, the organizations also declined to be identified. Although there are a few direct quotes in this paper to emphasize particular points, they are made anonymously.

# Strategy

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## Strategy definition and formulation

There are multiple definitions of strategy. For instance:

- Lafley and Martin (2013) defined strategy as “an integrated set of choices that uniquely positions the firm in its industry so as to create sustainable advantage and superior value relative to the competition” (p. 3). They also discussed how leaders sometimes approach strategy through ineffective viewpoints, such as equating strategy to vision or to a plan.
- Ohmae (1982) defined strategy as “the way in which a corporation endeavors to differentiate itself positively from its competitors, using its relative corporate strengths to better satisfy customer needs” (p. 92).
- Porter (as cited in Magretta, 2012, p. 219) defined strategy as “the set of integrated choices that define how you will achieve superior performance in the face of competition.”

Not everyone shares these singular definitions of strategy. Nearly three decades ago, Mintzberg (1987) observed:

Human nature insists on a definition for every concept. The field of strategic management cannot afford to rely on a single definition of strategy, indeed the word has long been used implicitly in different ways even if it has traditionally been defined formally in only one (p. 11).

Mintzberg also discussed various interpretations of strategy that are sometimes used as definitions. These include:

- Strategy as a plan to do something;
- Strategy as a retrospective pattern of consistent behavior; and
- Strategy as an organization’s position in its broader external environment.

However, there are key elements among these various definitions (or interpretations) of strategy: choices or options, integration, differentiation, and sustainable advantage. These elements may be combined to define strategy as the selection and integration of options that, if successful, will give the organization a sustainable competitive advantage.

Strategy formulation involves choosing a particular path to get from current point A to desired point B. That point B should correlate to the organization’s mission and vision. The strategy is a high-level answer to the question, “How do we get there?” The more detailed answer involves the development of strategic initiatives implemented through projects. The alignment and integration of these projects should increase the likelihood that their successful completion will contribute to accomplishment of the organization’s mission and vision.

## Strategy execution

The execution of projects in the project portfolio is the mechanism to accomplish the strategy. Strategy development is followed by strategy execution, and strategy execution is enabled by the completion and implementation of projects. In other words, project portfolio management enables strategy execution.

Franken, Edwards, and Lambert (2009) described strategy execution as having two primary parts: creating the portfolio of initiatives and providing the resources to fund and implement those initiatives. They also discuss the reasons why successful strategy execution is difficult. These include more frequent strategy redefinition due to stakeholder pressure for greater profitability, and balancing the needs for change with the needs of ongoing operations. Franken et al. mapped 10 generic elements of successful strategy execution to three overall capabilities: alignment of the portfolio with the strategy; executing the initiatives in the portfolio; and identifying and implementing lessons learned to improve the process.

In particular, they identified four of the 10 generic elements as critical to successful strategy execution: (1) leaders creating an organizational culture of continuous change; (2) a united commitment to the portfolio by senior leaders; (3) governance, including accountability, for each initiative in the portfolio; and (4) active management of the portfolio to address interdependencies (and synergies).

The eight interviewed organization leaders provided examples for each of these four critical elements.

1. The organizational **culture of continuous change** is critical in shaping behaviors. One senior leader described the result of changing to an organizational culture of empowerment: "Try it. If it works, OK. If it doesn't, no one gets punished" (personal communication, 2015).
2. As one leader noted, ensure **a united commitment to the portfolio** by encouraging candid discussion of a project's pros and cons at senior leadership team meetings, after which "everyone supports every project agreed to" by that team (personal communication, 2015).
3. **Accountability for each project in the portfolio** often lies with the project leader. Another of the interviewed organization leaders described the dilemma of loose/tight controls as "Do not micromanage. Trust but verify" (personal communication, 2015).
4. One of the leaders described the **active management of its collection of projects**: "Initiatives are continually monitored. As needed, priorities for initiatives are changed and funds are moved" (personal communication, 2015).

Although these examples use different words, the critical elements are clear: the right organizational culture, mutual senior leadership support of portfolio decisions, accountability at the project level, and active management of the portfolio.

Strategy execution may be impacted by both changes in the portfolio and changes in the external environment. Changes in the portfolio occur naturally as projects are completed and resources are redirected to other projects. Portfolio changes can also occur by terminating projects that are underperforming or no longer contributing to the organization's current strategy. An organization may modify its strategy due to changes in the external environment. These may have rendered the current strategy suboptimal, or created strategic opportunities that weren't obvious when the strategy was originally created. One of the eight organization leaders described the

organization's strategic process as "iterative and continuous adaptation." This allows the organization to capture opportunities that are not apparent at the periodic meeting for setting strategy.

Strategy is the overall path to achieving the vision and mission. Individual initiatives, managed as projects, are the mechanism used to move the organization forward on that strategic path. If there are a number of projects, there is value in formally managing them collectively as a portfolio of projects. The eight organizations all managed their projects as a collection, although many did not formally use the term "portfolio management" to describe this. None had a formally designated portfolio manager.

For smaller organizations, the senior leadership team performed this function. For larger organizations, this responsibility was delegated to major department heads. At this point, some organizations recognized this departmental role as managing a sub-portfolio, which is a critical, but potentially dangerous juncture. When organizations manage groups of projects only as a sub-portfolio, they minimize the importance of the overall portfolio management and may miss the opportunity to balance resource allocations across sub-portfolios or identify hidden synergies between elements of the sub-portfolios for potentially greater gain.

# Portfolio Management

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## The role of project success on portfolio success

According to *The Standard for Portfolio Management* (PMI, 2013c), a portfolio is “a component collection of programs, projects, or operations managed as a group to achieve strategic objectives” (p. 3). The function of portfolio management may be performed by a single individual in larger organizations or a group of individuals (e.g., the senior leadership team) in smaller organizations. As discussed earlier, an option that falls between these two is to delegate the management of a subset of projects to a department head as a sub-portfolio. The important consideration in each of these scenarios is the function or role—not the title.

The success of the portfolio depends on the success of the projects within the portfolio. There are various views as to what constitutes project success. For example, Shenhar, Dvir, Levy, and Maltz (2001) analyzed project success and identified “four major distinct success dimensions: (1) project efficiency; (2) impact on the customer; (3) direct business and organizational success; and (4) preparing for the future” (p. 699). The first dimension refers to the traditional time, budget, and scope constraints. The second and third dimensions address whether satisfying the project’s requirements actually addressed the customer’s needs, and also assisted the overall organization in meeting its higher level objectives such as profitability or market share. The last dimension emerged from an analysis conducted by Shenhar et al. They asked “how does the current project help prepare the organization for future challenges?” (p. 710). *The Baldrige Performance Excellence Program* (2015) used the terminology “successful now and in the future” to identify this aspect of portfolio success.

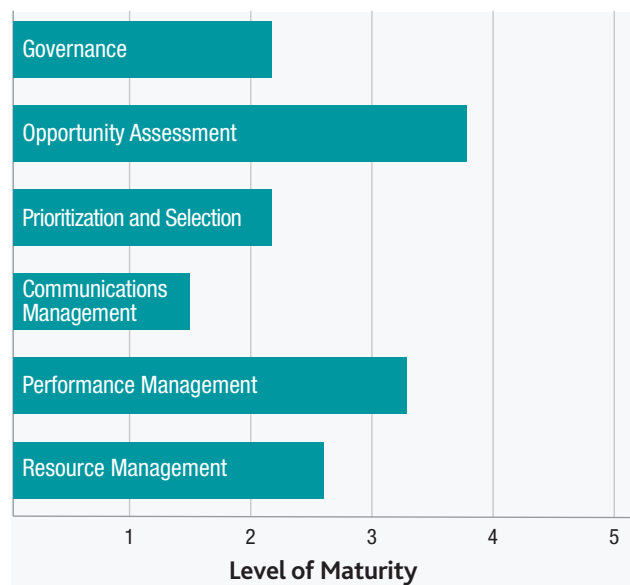
This model of project success is similar to that proposed by Nelson (2005) after performing retrospective analyses of IT projects that were designated as either successful or failed at the time of project completion. Nelson used six criteria to determine stakeholder satisfaction: (1) cost, (2) time, (3) product, (4) use, (5) learning, and (6) value. Nelson designated the first three as “process-related criteria” and the second three as “outcome-related criteria” (p. 364). Product, in Nelson’s context, is the same as meeting the project’s specifications, and learning is achieved because “the project increased stakeholder knowledge and helped prepare the organization for future challenges” (p. 364). Nelson’s six criteria map directly to the four dimensions proposed by Shenhar et al. as shown in **Table 1**.

Shenhar et al. Model for Projects	Nelson Model for Projects	Portfolio Management Considerations
Project efficiency	Time Cost Product	What are the synergies of managing/governing the projects as a collection versus as separate, independent projects?
Impact on the customer	Use	How is the customer or other end user using the results of the project portfolio? How are stakeholder expectations managed when there are changes in the portfolio?
Direct business and organizational success	Value	What is the collective impact of the projects in the portfolio on the organizational objectives? Would reallocation of portfolio resources increase the likelihood of achieving those organizational objectives? If so, which stakeholders might perceive an adverse impact from these decisions?
Preparing for the future	Learning	How do the portfolio decisions contribute to achieving the organization's long-term strategy? What is the impact of stakeholder disagreement, if any, with this long-term strategy?

**Table 1:** Comparison of the Shenhar et al. and Nelson models and how the concepts relate to portfolio management.

### Stages of portfolio maturity

Maturity of practice in any discipline can be described as the extent to which practices are well defined and consistently executed. Pennypacker (2005) described one approach to assessing project portfolio management maturity using a two-dimensional model as illustrated in **Figure 1**. The horizontal axis represents the organization's level of maturity from early stages (Level 1) to optimized processes (Level 5). The vertical axis lists six components of project portfolio management, each of which is assessed for its level of maturity. Although managing stakeholder expectations is not explicitly listed as one of the six components, a reasonable assumption is that the likelihood and effectiveness of managing portfolio stakeholder expectations increase as the organization's maturity level increases.



**Figure 1:** Example of an assessment of project portfolio maturity using the Pennypacker (2005) criteria.



The organizational interviews included eight questions intended to assess project portfolio management maturity. In retrospect, the responses were assessments of how well they perceived their organizations were performing rather than how formal their processes were. Still, the interviews provided useful insights. In some cases, the answers varied for different sub-portfolios (e.g., the rigor of customer-facing projects versus internal improvement projects).

## Strategic alignment

Alignment of the portfolio with the organizational strategy serves two purposes. Most importantly, it gives rigor to the project selection process that favors projects in which expected results will contribute the most to achieving the strategy at the best cost. Additionally, it enables the periodic evaluation of ongoing projects to determine how well they continue to support the objectives. An assessment of diminished support for a particular project could result from underperformance, a change in the organizational strategy, or both.

Srivannaboon (2006) addressed how project management is linked to business strategy, beginning with selecting projects that are aligned with the organization's strategy. Stated differently, the organization's strategy drives the portfolio management processes that include project selection and prioritization. Srivannaboon also discussed how many organizations use project stage gates to ensure project/strategy alignment throughout the lifecycle of the project. However, Steffens, Martinsuo, and Artto (2007) observed that the need for project decisions between the gates is often not addressed. If the formal gates are separated by a significant amount of time, an under-performing project may not receive timely scrutiny. One problem associated with this is the potentially unnecessary continued funding until the next formal gate. Steffens et al. noted a second potential problem: "the later the project is terminated, the more difficult the decision is due to 'sunk costs' and commitments made" (p. 704).

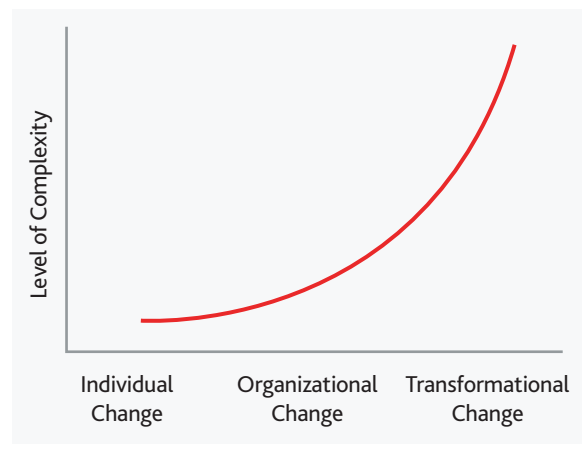
Another insight from the interviews is that the organizations represent varying levels of portfolio management maturity. Generally, the level of portfolio maturity increased with the size of the organization. However, there are exceptions. Some large organizations use somewhat informal approaches, and some smaller organizations exhibit higher levels of project portfolio management maturity. In all cases, each organization's approach to project portfolio management worked well for that organization. Further, most of the organizations had terminated projects in their collection/portfolio at one time or another. They dealt with the resulting change as appropriate, with some describing their management of stakeholder expectations in great detail.

# Managing Change

## Differing views of change management

Change as a concept is difficult to define without using the word change in the definition. It's easier to describe change as a process, such as moving from point A to point B. One of the earliest change models was proposed by Lewin (1947). This simple model has three steps or components: unfreezing (prepare to change); moving (enact the change); and freezing (stabilize and institutionalize the change). This three-step model has also been expressed as moving from an ending of the old, through a neutral zone where the change occurs, to the new beginning with an emphasis on the transition (Bridges, 1991).

Later, Kotter (1996) expanded the three steps to eight steps or stages by providing greater detail for the moving stage or neutral zone. These additional strategies include creating a change vision and strategy, communicating with stakeholders, and generating short-term wins as a starting point for longer-term changes. *Managing Change in Organizations: A Practice Guide* (PMI, 2013a) described the Bridges and Lewin change models as a psychological transition, and the Kotter change model as a process. These change definitions and models apply across many contexts. For example, individual change management is the application of these models at an individual level, such as a project leader coaching a team member to improve performance.



**Figure 2:** Increasing complexity based on type of change.

The results or outputs of a project ultimately impact multiple individuals. Organizational change management is the process of moving a group of individuals (or an organization) from the present state to a desired future state for particular initiatives. An example is the implementation of a new integrated financial system as a replacement for one or more old systems. The models for organizational change management are essentially the change models described in the preceding paragraph. The primary difference is the complexity introduced by the number of people impacted. This is analogous to the exponential increase in the number of individual lines of communication in a group as the group size increases.<sup>1</sup>

Transformational change management is the integrated management oversight of *multiple* ongoing organizational change management efforts. Logically, this becomes a role of the individual or group responsible for all of these efforts. In larger organizations, this might be a single individual who manages the collection of projects as a portfolio. In smaller organizations where the number of projects is typically lower, the senior leadership team may serve this role. The conceptual framework in **Figure 2** shows how the complexity increases from individual to organizational to transformational change management.

The discussion of change as a systems model in *Managing Change in Organizations* (PMI, 2013a) described three levels, or orders, of change. For example, organizational change is a first-order change. Transformational change

<sup>1</sup> This is typically expressed mathematically as  $n*(n-1)/2$ .

is a second-order change and perhaps a third-order change as well. The latter would depend on the extent of the transformation as well as the organization's efforts to institutionalize the changes for the longer term.

Some individuals challenge the effectiveness of organizational change management efforts and traditional change management models. For example, Worley and Mohrman (2014) quoted statistics that suggest as many as 70% of large-scale change efforts fail. To address this, they proposed a new descriptive change model patterned after the traditional Plan–Do–Check–Adjust circle model used by organizations for continuous improvement efforts. The four components of Worley and Mohrman's "engage and learn" circle model are awareness, design, tailor, and monitor, with engagement/learning in the middle of the circle. This continuous improvement approach recognizes the volatility and uncertainty of the organization's external environment, and suggests less control over the actual change process.

Whether an organization uses traditional change models, second- or third-order transformational change models, or a continuous improvement approach, individuals are still at the core of the change.

## Individual reactions to change

In large part, individuals react to change based on its impact to them personally. Perceived favorable impacts generally lead to support for the change and perceived unfavorable impacts may lead to change resistance. Another factor is an individual's preference for change in general. Diffusion models show that innovators prefer change for the sake of change itself; other individuals dislike any change until the very end, if then, and the majority of individuals fall somewhere between these two extremes.

All change is personal. Each person typically asks: "What's in it for me?" Hutchinson (2001) followed that question with: "Will I be better or worse off, and what shall I do about it?" (pp. 28–29). In addition to informing individuals about the change, Hutchinson listed three other actions: leading, listening, and involving. In particular, leading involves the ability to "tell a compelling change story that the rest of the organization understands and supports" (pp. 29–30).

The "Will I be better or worse off?" question is key. For example, Barker (1992) described the impact of change on individuals through the "going back to zero" rule: "When a paradigm shifts, everyone goes back to zero" (p. 140). In different terms, individuals lose whatever expert power they have accumulated under the old paradigm, and must regain their expert power under the new paradigm. An example of this is how expert users of an old information system must learn new skills and knowledge when the new information system is implemented to regain their expert status. We all tend to resist, to some level, the loss of our personal power.

## Implications for leaders

This discussion of change models has an underlying assumption that change occurs in predictable cycles. Meyer and Stensaker (2006) explored the common problem of viewing changes as isolated events with clear beginnings and ends. One downside of this view is "change fatigue" for both individuals and organizations. Another potential problem is overlooking the dynamic aspects of change. The solution is to develop an organizational capacity for change to sustain good performance over a longer period of time. This requires a balance between changing and maintaining stability in operations. The five common change process prescriptions proposed by Meyer and Stensaker include framing the change properly by providing the rationale for the change via effective communications.

One of the eight interviewed organization leaders made a deliberate effort to frame change by explicitly tying all project decisions, from initiation to defunding, to the organization's strategy. In particular, communications with stakeholders are "rooted in the strategy" (personal communication, 2015). This is one approach to creating a compelling change story as suggested by Hutchinson (2001). A senior leader at another of the eight organizations described the significant role of communications in managing change with this advice: "Lead with why [you're making] the change. Reinforce the who [is affected]. Reinforce the positive movement [of those individuals]" (personal communication, 2015).

The *Pulse of the Profession®: The High Cost of Poor Performance* (PMI, 2013b) report described three drivers that distinguish high-performing organizations: talent management, standardized project management, and strategic alignment. Harrington and Voehl (2014) expanded the descriptions for each of these three drivers. In particular, they summarized the benefits of strategic alignment such as ensuring "resources are not consumed by projects and programs that no longer drive the strategic objectives of the organization" (p. 11). This portfolio pruning frees resources that can instead be used for initiatives that have better strategic alignment. The suggestion to frame the portfolio changes in terms of their expected impact on the strategy may help manage stakeholders adversely impacted by the portfolio changes.

Individuals and organizations initiate change with the expectation that their situation or condition after the change will be better than before the change, even though "better" may be viewed differently. Presenting a compelling reason for the change, such as survival, is one way to add impetus for the change. A component of the compelling reason is the future security of the organization and therefore the individual. Conner (1992) wrote: "an organizational burning platform exists when maintaining the status quo becomes prohibitively expensive" (p. 93). Urgent doesn't always translate to immediate. A longer time frame is often needed to establish a more strategic approach.

# Changes in the Portfolio

Having reviewed the dynamic nature of strategy, the role of portfolio management in maintaining alignment to strategy, and how individuals separately and collectively respond to change, we now turn our attention to the need to adjust the portfolio and managing the resulting change. The world faced by portfolio managers is sometimes chaotic. Landry (2013) described this succinctly:

The portfolio is in place, the projects are on track—and then everything goes sideways. Whether they must accommodate shifting resources, respond to economic opportunities or react to a competitor's latest move, portfolio managers often find themselves facing drastic changes that impact both workflow and resources. They're then tasked with realigning the portfolio to support the new strategy (p. 40).

## Strategy changes

No portfolio remains static. At a minimum, completed projects are removed from the portfolio and new projects are added. Petit (2012) summarized two traditional reasons for why portfolios change: periodic portfolio reviews to ensure alignment with the organization's strategy; and changes in the business strategy (i.e., a new strategic direction). In between these two scenarios lies a third possibility—a dynamic business environment that potentially requires ongoing change, which contradicts the common assumption that there will be no significant portfolio changes until the next periodic review. Petit observed that this requires dynamic capability, and adopted the following definition: “the firm's ability to integrate, build, and reconfigure internal and external competencies to address rapidly changing environments” (p. 541). This is enabled through three organizational actions: sensing and shaping opportunities, acting on those opportunities, and changing the portfolio, as needed, to ensure its continued alignment with the organization's decisions regarding those opportunities.

Organizational agility is another way to describe this dynamic capability. The *Baldrige Performance Excellence Program* (2015) noted: “agility requires a capacity for rapid change and flexibility in operations” (p. 40). The eight interviewed organization leaders were asked to assess their organizational agility. On a scale of 1 to 10, where 1 is relatively static and 10 extremely agile, the self-assessed scores ranged from 3 to 9. The general trend was a decrease in organizational agility as the organization size increased. However, the explanation for the highest score was senior leadership's role in shaping the organizational culture, not the organization's size.

A different view asks what factors require organizations to have this organizational agility. Using this approach, Floricel and Ibanescu (2008) described four dimensions of the external environment that require dynamic capability: velocity, turbulence, growth, and instability. Velocity is the rate of change in the environment, such as improved organizational performance fueled by technological innovation. Turbulence refers to the “extent of perceived discontinuity in environmental change with respect to past trends and anticipated directions” (p. 454). It is a fundamental change that has not previously occurred and was not predicted. Growth relates to an increased demand in the broader environment of the organization, such as growth in the healthcare sector. Instability is the impact of somewhat unpredictable moves by competitor organizations, such as product imitations. Floricel and Ibanescu noted that “firms in rapidly evolving environments prefer to manage portfolios in an integrated way, while firms in slower contexts evaluate each project separately” (p. 453).

The leaders within the eight organizations were asked to assess their external environments for velocity, turbulence, growth, and instability on a scale of 1 to 10, where 1 represented relatively little and 10 was a significant amount. Not surprisingly, the numbers ranged from 1 to 10 for each of these four dimensions. However, what was surprising is that in some individual organizations, the responses varied quite a bit when the sub-parts of the organization were assessed separately. For example, instability ranged from 1 to 10 in one organization when it assessed its major sub-organizations, as shown in **Table 2**. This reinforces the need to view the collection of projects as both sub-portfolios and a single portfolio to allow overall trade-offs among projects, if needed.

Sub-portfolio	Velocity	Turbulence	Growth	Instability
A	5	2	1	2
B	1	5	1	1
C	10	4	10	10

**Table 2:** Example of variance in external environments for sub-portfolios.

## New discoveries in pursuit of project deliverables

Strategic opportunities were defined in the *Baldrige Excellence Framework* (Baldrige Performance Excellence Program, 2015) as “prospects that arise from outside-the-box thinking, brainstorming, capitalizing on serendipity, research and innovation processes, nonlinear extrapolation of current conditions, and other approaches to imagining a different future” (p. 53). New technology emergence is an example of a strategic opportunity.

Regardless of their origin, strategic opportunities must be evaluated through an intelligent risk-taking process. Intelligent risks are those whose potential benefits outweigh the potential risks. Intelligent risk taking also requires an organization to have some risk tolerance or acceptance of possible failure.

One reward for successful intelligent risk taking is innovation, which is often a discontinuous change in improvement. This is distinguished from continuous improvement efforts. The rationale is that the organization’s competitors also have continuous improvement efforts underway, and the overall industry is improving more or less at the same rate. It’s the discontinuous change that can give an organization a competitive edge with respect to its competitors.

The nature of strategic opportunities and intelligent risk taking has two potentially significant impacts on a portfolio manager. First, new projects for the portfolio can appear without much advance warning. Second, those new projects, by definition, tend to have greater risk. Project risk impacts overall portfolio risk.

## Stakeholder influences

Intuitively, the stakeholders of individual projects become stakeholders of the project portfolio. Also, an individual may be a stakeholder for multiple projects. However, Bourne and Walker (2005) observed that “the strategies needed to engage project stakeholder support are different for every project, even when the stakeholders are the same people” (p. 1). This suggests stakeholder management may have both tactical and strategic elements.

Further, stakeholders may be either external or internal. Beringer, Jonas, and Gemünden (2012) described four categories of strategic internal stakeholders for project portfolios: senior management, mid-level line management, project portfolio managers, and project managers. Regardless of their origin, stakeholders and their expectations must be managed with respect to changes in the portfolio. External stakeholders include suppliers, end users, and public or government entities.

Koh and Crawford (2012) studied six Australian service and manufacturing organizations to assess their portfolio management practices. Their results showed many similarities in portfolio manager roles across the two sectors. These included involvement with stakeholders in the strategic planning process before projects were finalized. Koh and Crawford summarized one of the practical implications of their work as: "portfolio managers are focusing on business results, stakeholder satisfaction, and long-term strategy and results of their portfolio" (p. 41).

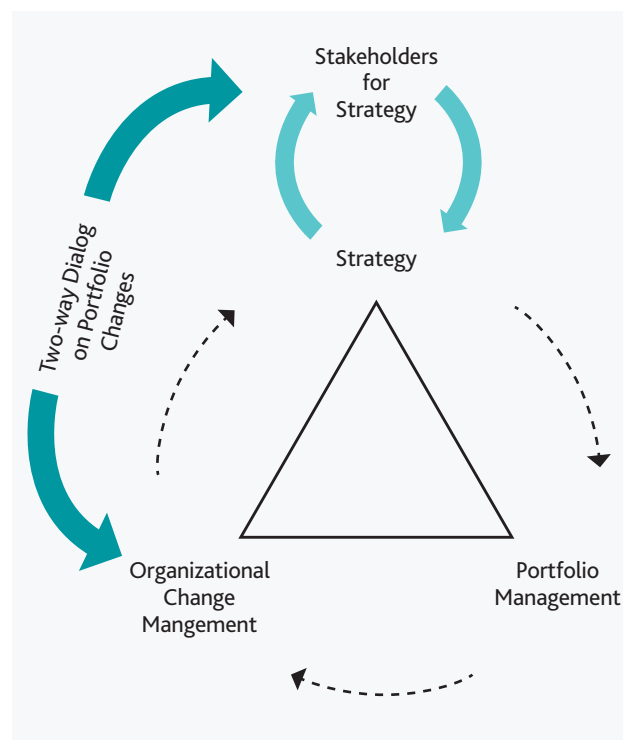
In addition to segmenting stakeholders as internal or external they can also be categorized as individual project stakeholders and portfolio stakeholders. The first category includes all of the stakeholders for the individual projects. If a particular project's relative priority is decreased, perhaps resulting in reduced or eliminated funding, that project's stakeholders are impacted. Their expectations must be managed. The other category of portfolio stakeholders focuses on the performance of the portfolio as a whole. These stakeholders may not have any allegiance to any particular project. Their expectations must also be managed, but the explanations are likely to focus on the overall portfolio's progress toward accomplishing the organization's strategy.

# Portfolio Change Management

## Managing expectations of stakeholders when the portfolio shifts

The preceding discussions provide the foundation for managing stakeholders' expectations when the inevitable portfolio changes occur. The reasons for required portfolio adjustments are varied and can include: an underperforming project that contributes less to the overall organizational goals; the emergence of a new, higher priority project that wasn't known when the portfolio was prioritized; or changes in the organizational strategy that require assessment and realignment of the entire portfolio. The common element in these portfolio scenarios is the need for organizational change management to move the various stakeholders and their expectations from their current views to the new reality.

**Figure 3** shows a potential two-level relationship among strategic stakeholders, strategy, portfolio management, and organizational change management. The first level is represented by the dashed-line feedback loop. This is where strategy development, based on inputs from the stakeholders for strategy, results in strategic initiatives and corresponding action plans. The implementation of these action plans involves project management, and the projects are managed collectively as a portfolio. As noted earlier, no portfolio remains static. As changes occur, stakeholder expectations are managed using the organizational change management methods discussed previously. This is the portion of the feedback loop linking portfolio management to organizational change management.



**Figure 3:** Impacts of portfolio changes.

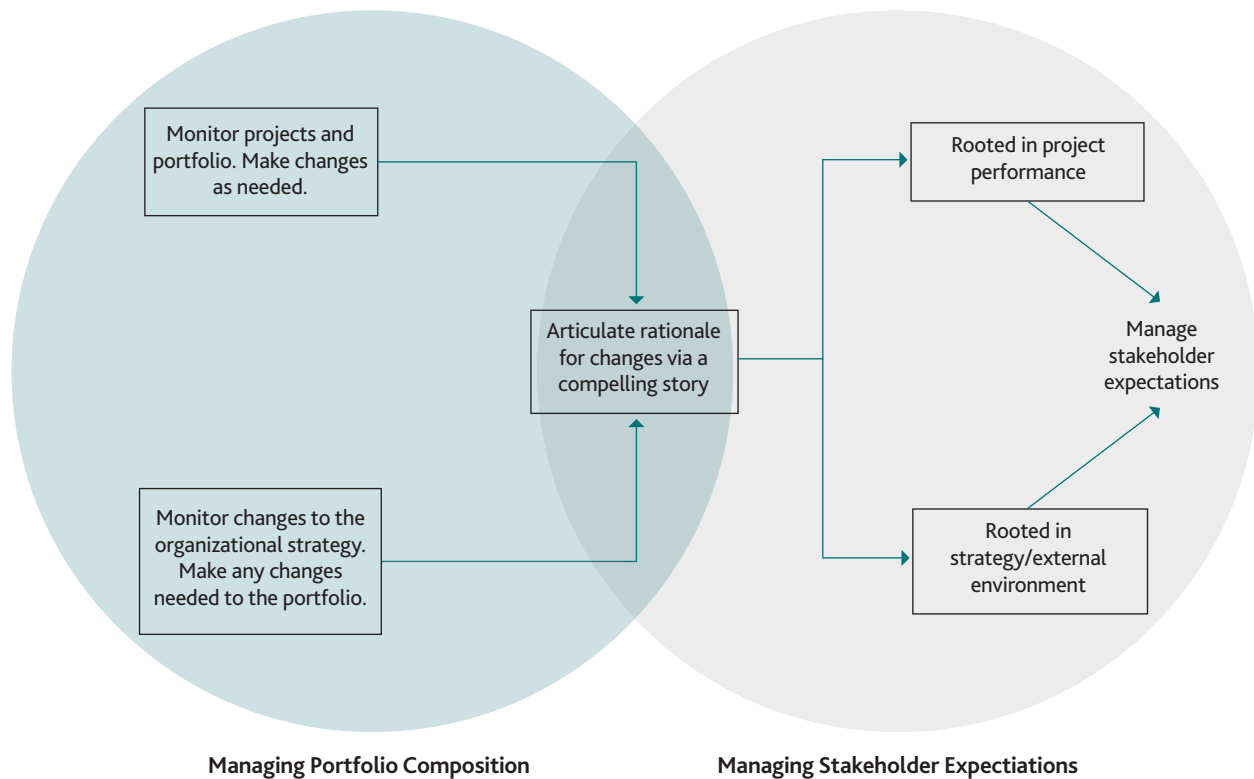
In the portion of the feedback loop from organizational change management to strategy, portfolio changes are assessed against the strategy. This feedback to the strategy primarily asks if the work completed accomplishes the related portion of the strategy or if additional strategic initiatives (and implementing projects) are needed. These, in turn, create additional change in the portfolio. This dotted line loop is primarily a configuration management function that focuses on alignment between the strategy and the portfolio of projects.

In addition to this dashed-line feedback to the strategy, a second feedback loop informs the stakeholders for strategy that changes in the portfolio have occurred. This gives those stakeholders an opportunity to voice opinions regarding the need for additional strategic initiatives, or even satisfaction with the overall progress toward the strategy. Similar to the project stage-gate discussions earlier, these updates to the strategy stakeholders typically occur at routine intervals established in the strategic planning process, with interim updates if needed.



Changes to individual projects include successful completion, project difficulties that are being addressed, and reduced (or deferred) funding in lieu of higher priority work. As these changes occur, the project stakeholders should be informed. The potential question arises regarding which “hat” they wear when the project update is provided—as a project stakeholder or as a portfolio/strategy stakeholder. Ideally, the answer is both.

Another interpretation of **Figure 3** is that the portfolio management function involves two roles. The more familiar role is to manage updates to the portfolio. One trigger for these updates is a change in individual project status (e.g., completion or termination due to underperformance). Another trigger is an overall portfolio assessment and potential realignment due to a change in organizational strategy. As stated earlier, portfolio updates may be viewed as a configuration control role. The resulting changes to the portfolio composition will impact one or more stakeholders—potentially both individual project stakeholders and strategy stakeholders, as discussed earlier. These are illustrated in the left side of **Figure 4**.



**Figure 4:** Dual role of portfolio management.

The second role for the portfolio management function is to manage stakeholder expectations regarding those changes. The various approaches to change management involve communication of the “why” for the change. The middle of **Figure 4** suggests this communication should include a compelling reason for the change. These two roles—managing portfolio composition and managing stakeholder expectations—require complementary skills: traditional portfolio management expertise and organizational change management competencies.

Earlier, linking all project decisions and subsequent communications to the organization’s strategy was discussed. The specific quote was that communications with stakeholders are “rooted in the strategy.” This alignment helps to reduce suboptimal portfolio decisions based solely on a project view. It also contributes to strategic agility.

## Strategic agility

An adaptation of the Baldrige definition for organizational agility discussed earlier would define strategic agility as the capacity for rapid change and flexibility in strategy. There are leadership paradoxes associated with strategic agility according to Lewis, Andriopolous, and Smith (2014). They discussed examples such as being stable versus being flexible; maintaining commitment versus changing; and staying with traditional routines versus trying novel approaches. In particular, they identified three capabilities associated with strategic agility: strategic sensitivity, leadership unity, and resource fluidity. The word paradox was intentionally used to imply contradictory elements that must exist at the same time, as opposed to tradeoff or compromise.

Weber and Tarba (2014) provided a more extensive review of strategic agility, which they defined as “the ability of management to constantly and rapidly sense and respond to a changing environment by intentionally making strategic moves and consequently adapting the necessary organizational configuration for successful implementation” (p. 7). The underlying themes for this definition are an environment that is changing rapidly and in unpredictable ways, and the need for sufficient resources to respond to those sudden changes. According to Weber and Tarba, strategic agility has two capabilities: leadership ability to sense the need for change (to address opportunities or threats) and an organizational design that can facilitate structural changes as needed to implement new directions. An adaptive organizational culture could be considered a third key capability.

An analysis of data from the 2006 IBM global CEO survey by Bock, Opsahl, George, and Gann (2012) resulted in the identification of key drivers for business model innovation and their impacts on strategic flexibility. For example, decentralizing decision making and simplifying the organizational structure promote strategic flexibility, although the relationships are more complex than initially apparent. Perhaps more importantly, organizational culture is a key aspect of an organization’s informal structure (Combe, 2014). This was also an underlying theme in the eight interviews.

Similarly, Worley and Lawler (2010) noted the role of organizational design in creating competitive advantage. In particular, they defined organizational agility as “a dynamic organization design capability that can sense the need for change from both internal and external sources, carry out those changes routinely, and sustain above-average performance” (p. 194). Agile organizations are able to exploit momentary advantages by creating the ability to generate results under varying environmental conditions. They strongly focus on the future and on deploying resources where needed. One characteristic of agile organizations is their ability to foster transparency in information systems and decision-making processes.

A good illustration of the importance of organizational agility emerged from a five-year study by Sull, Homkes, and Sull (2015) that encompassed 7,600 managers in 262 companies spanning 30 industries. An underlying assumption for all organizational strategies is that their execution will be effective. Yet, Sull et al. found “a lack of agility is a major obstacle to effective [strategy] execution” (p. 62). Agile organizations have a greater likelihood of effective execution of their strategies. Since strategy execution translates to portfolio execution, the portfolio management role requires both the skills to change the portfolio as needed to ensure strategic alignment, and the skills to manage stakeholder expectations about those portfolio changes.

# Additional Practical Insights from Current Practices

Many of the practical insights from the eight interviews have been discussed in the preceding sections when they directly contributed to the observations of other authors. The last question in the interviews asked for lessons learned or practical insights that could be shared regarding project/portfolio management, stakeholder management, and change management. Another interview question asked about how senior leaders sense external change. The following are some of the practical insights received that have not been discussed.

## ■ Project/portfolio management

- The processes in smaller organizations are more fluid than formal. The collection or portfolio of projects is likely to be monitored and managed by the entire senior leadership team.
- Due diligence at the time of project approval is critical. One of the eight organizations “cannot do enough to vet projects on the front end” (personal communication, 2015).
- Programs and portfolios provide the longer view. “The value of projects is that they provide boundaries in the short term” (personal communication, 2015).

## ■ Stakeholder management

- Get stakeholder input often, and make it the stakeholder’s idea to the extent possible. This helps build ownership. One leader said “It’s all about communication” (personal communication, 2015).
- Another organization’s leader said this about stakeholder management: “think strategy, strategy, strategy. Understand what’s my end in mind [for the stakeholder]? Have a strategy for the stakeholder, and frame/present the message differently, if needed, for various stakeholders” (personal communication, 2015).
- Stakeholders also have stakeholders. Although they may not be visible, those second-order stakeholders can influence your primary stakeholders in a direction that is opposed to your needs.

## ■ Change management

- Leaders explain the “why” for the change, recognize those who are impacted by the change, and reinforce the positive behaviors in adjusting to the change.
- A strategic goal with a lot of “stretch,” if properly explained can help align the organization’s goals to personal actions. One of the organizations noted this about their stretch goals: “it forces people to ask ‘will what I’m doing really make a difference? Is there a better way?’ ... This translates the [stretch goal] to personal responsibility and choice” (personal communication, 2015)
- When asked about the role of senior leaders in managing change, one of the interviewed executives exclaimed: “it’s their job!” Later that same executive answered from a different perspective: “Understand the why. Have lots of conversations about the why. Ask what happens if we don’t change” (personal communication, 2015).

## ■ Sensing external changes

- Senior leaders sense changes in their external environments through multiple approaches, including maintaining good relationships with [external] stakeholders since they may be able to identify trends earlier. In particular, many of the executives interviewed have routine discussions with customers, industry associations, and peer networks. Finally, the workforce is a tremendous source of input, particularly in industries with rapidly changing needs for workforce skills.

## Conclusions

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The impacts of individual project changes may be amplified in the portfolio of projects, however loosely coupled they are. One tie that binds them is resources. If the overall resource level is fixed, funding changes at the project level have an inverse relationship. Increases in one project's budget must come from decreases in the budgets of others. This has stakeholder implications.

Other changes may impact the portfolio, including the addition of emerging projects as well as deferred or eliminated projects due to underperformance or decreased strategic fit. These changes also have stakeholder implications.

Two groups of stakeholders comprise the portfolio stakeholders—those impacted by individual projects and those impacted by the portfolio as a whole without regard to particular projects. Individual project stakeholders tend to have an earlier awareness of portfolio changes because of their knowledge of project status. Stakeholders impacted by the project as a whole tend to be updated at regular intervals as outlined in governance processes.

When there are changes to the portfolio, there is a need for organizational change management of both stakeholder groups. An initial reaction might be to use simpler change models for the projects and a more complex change model for the portfolio. However, two key insights from this paper suggest that a common approach might work for both stakeholder groups. First, successful change requires deliberate communication with the stakeholders about the change, including why the change, the impact of the change on them, and what happens if the change doesn't occur. The second key insight involves wrapping these communications around alignment with the strategy. As noted earlier, ensure the communications are "rooted in the strategy." This helps individuals to bridge from an assessment of the personal impacts to a focus on the organizational impacts. As with organizational agility, this is a cultural change that may take time to institutionalize. The best time to begin is before it is needed.

Finally, the management of portfolios involves two key roles—structural changes to the portfolio composition as needed, and expectation management of stakeholders regarding those structural changes. A common element in the various organizational change management approaches is communication. The explicit communication of both the "what" and "why" of changes in the portfolio is a key element of managing stakeholder expectations. Effective portfolio management requires skills in both roles.

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