


MAKE EVERY DOLLAR COUNT

Increasing your return on strategic initiatives


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EXECUTIVE SUMMARY

Many firms employ suboptimal practices when managing the vast sums of money they invest in their portfolios of strategic initiatives. Firms pursue these initiatives and projects to advance their strategies, increase the efficiency of operations, launch new products, and improve customer experience, among many other aims. Resources are limited, though, and management teams must select those initiatives that are most likely to yield the best outcomes and deliver the most value to the organization. Despite the importance of making these decisions correctly, we observe a range of common issues across many firms, including a disproportionate focus on short-term, tactical initiatives, ineffective governance and oversight, piecemeal approaches to initiative screening and selection, and weak monitoring and execution, among other flaws. These inadequate practices are a drag on firms' ability to capture value from initiatives and ultimately achieve robust growth.

In the current environment, there is an urgent imperative for companies to strengthen their initiative management capabilities, particularly in light of macroeconomic headwinds and the resulting high degree of investor scrutiny on companies' deployment of capital. While most firms have some aspect of their initiative management process that can be improved, several have dramatically improved their practices in recent years. We think that institutions can universally benefit from learning about best practices employed by other firms to manage their portfolios of strategic initiatives.

In this paper, we expand on:

- **The basics** — we introduce the framework we commonly employ when advising clients on how to think about strategic initiative portfolio management and discuss how institutions can get started
- **Common challenges** — we then detail the current state of initiative portfolio management practices among large corporations, highlighting commonly observed challenges
- **Case for change** — we then discuss the case for change, including the costs associated with deficient practices, the benefits of solving these problems, and the impact on firms' valuations given the scrutiny public companies are facing in this area from the analyst and investor community
- **Leading practices** — next, we outline leading practices that have allowed firms to increase investment discipline, improve execution quality, and deliver higher returns
- **Taking action** — finally, we outline the most critical actions that firms can take to implement more robust and disciplined initiative portfolio management in a measured, risk-controlled manner

THE BASICS: OUR FRAMEWORK AND HOW TO GET STARTED

Our framework

We advise our clients to view their initiative portfolios similarly to a portfolio of financial assets. While these practices are common in the asset management industry, we rarely observe them implemented effectively in large corporations. The initiative management lifecycle can be broken down into distinct phases from defining a portfolio strategy through investing in and delivering the initiative portfolio — and to be effective must be linked tightly to enterprise strategy, culture, and incentives.

Through our client work, we have developed a common framework for examining and evaluating strategic initiative portfolio management practices. Exhibit 1 below highlights the core components and key questions that each component aims to address. We have found this framework useful both as a construct to compare and evaluate an institution’s practices against other organizations and as a means to evidence rigorous initiative management to external stakeholders.

Exhibit 1: Oliver Wyman framework for strategic initiative portfolio management



Source: Oliver Wyman Analysis

As we will examine later, improvements can be made by revisiting approaches across each element of this framework, and more substantive transformation often requires firms to revisit their approach across the entire lifecycle: making conscious decisions around portfolio composition aligned to the firm’s strategy, instituting quantitative frameworks to enable rigorous analysis and debate of initiatives prior to investment, and promoting strong execution through ongoing monitoring and effective governance to track, review, and challenge the progress and outcomes of the full portfolio and individual initiatives. We also recommend that firms build a culture that rewards success and incentivizes both individual and collective accountability for delivery.

Getting started

For most firms, the easiest way to start is to evaluate current initiative portfolio management practices and identify opportunities for improving them. We also often find that there is value in formally defining an initiative portfolio strategy, where one does not already exist. In aggregate, these actions will elucidate the existing gaps in practices and force management to think strategically about their desired initiative portfolio. Once armed with this information, firms can begin to plan and execute any identified enhancements.

COMMON CHALLENGES: WHERE FIRMS FALL SHORT IN REALIZING VALUE FROM THEIR INITIATIVE INVESTMENTS

We have observed several common challenges that reduce firms' ability to effectively deliver initiatives. Exhibit 2 identifies where common challenges manifest in the initiative portfolio management lifecycle, which we detail further in this section. These challenges are by no means exhaustive, although they represent the ones we observe as most common. We recommend that firms examine their practices and address challenges across the full initiative lifecycle, from ideation through delivery.

Exhibit 2: Commonly observed challenges across our framework



Commonly observed challenges

- A** There is no clear articulation of a firm-wide initiative portfolio strategy
- B** Investment decision-making lacks rigor and consistency against established investment principles
- C** Existing processes for managing and monitoring the delivery of initiatives are ineffective
- D** Culture and incentives are not aligned to balance supporting innovation and enforcing accountability

Source: Oliver Wyman Analysis

Common Challenge A: There is no clear articulation of a firm-wide initiative portfolio strategy

Asset managers must define portfolio strategies to attract capital from external investors and direct their investment allocations. In contrast, while mature firms consistently have formal strategic planning exercises, they frequently fail to articulate a clear initiative portfolio strategy as a component of their strategic plan. Without a clear initiative portfolio strategy, management cannot intentionally or thoughtfully direct how investments are allocated (based on percentage or dollar value of capital) across key purposes (for example, growth vs. transformation). Many firms are forced to prioritize non-discretionary efforts first, leaving very little left to fund initiatives with longer-term payoffs that are essential to retaining competitive advantage and fostering growth. Moreover, without a direct connection between their strategy and initiative portfolio, firms often fail to re-balance the portfolio over time to align with evolutions in strategy.

In the absence of ex ante guidance on portfolio strategy and allocation, firms default to tactical, bottoms-up approaches to developing initiatives. “Mandatory” initiatives, such as technology end-of-life, get first priority, consuming a large share of available capital before more strategic purposes. The little remaining capital may then flow to the savviest and most vocal executives to fund efforts, frequently concentrating on those with high in-year returns, with less capital for true innovation or purely strategic investments with longer-term payoffs. While many of our clients desire that 80% of initiatives are devoted to new, strategic purposes and 20% to remediation and technology end-of-life, many find that their actual allocations are reversed (after a painful process to construct a portfolio view).

Common Challenge B: Investment decision-making lacks rigor and consistency against established investment principles

Nearly every firm we encounter has some approach to evaluate the merit of individual initiatives. Many develop basic business cases which include qualitative information and at least some rudimentary financial projections produced by the originating business or support function. However, requirements often stop there, and business cases may lack information needed to compare and prioritize across initiatives. Key attributes may not be defined — for example, without a portfolio strategy defining specific categories of initiatives (for example, innovation vs. mandatory), firms cannot assess the allocation of capital across key categories and understand their portfolio composition. Additionally, metrics can be overly simplistic and difficult to verify (for example, focused on indirect outcomes such as top-line revenue growth), rather than capturing specific, directly attributable and measurable outcomes for the initiative (for example, number of new customer accounts). The information that is provided can also be of poor quality; for example, growth assumptions that are unrealistic or lack appropriate justification. Finally, initiatives frequently are not constructed in a way that enable them to be embedded into the firm’s budget or operating plan, creating both operational inefficiencies and making it hard to understand the contribution of initiatives to overall firm performance.

Firms with rudimentary evaluation frameworks struggle to compare and prioritize initiatives that are most accretive to the value of the portfolio. In the absence of objective information, managerial lobbying tends to determine initiative selection. Given that the vast majority of companies are constrained in their ability to fund all attractive initiatives in any given year, improving the allocation of capital to the most accretive initiatives is critically important. Deficient information collected when evaluating initiatives can impede firms' ability to assess initiative portfolio composition, monitor initiative outcomes, and take corrective actions (discussed below). Finally, firms often take an unstructured approach to sourcing initiatives, failing to provide ex ante guidance on the target initiative portfolio and instead relying on bottoms-up proposals of inconsistent strategic importance and quality. These firms often fail to identify the most promising initiatives and waste time and effort reviewing many ill-suited and/or poorly-designed initiative proposals.

Common Challenge C: Existing processes for managing and monitoring the delivery of initiatives are ineffective

Many firms struggle to effectively oversee delivery of both the overall initiative portfolio and individual initiatives. Firms are often unable to effectively understand portfolio-wide composition and performance given the lack of a consistent data model and aggregation capabilities. In these cases, management is "flying blind" and lacks the actionable information needed to both plan ahead for the medium- to long-term and adjust in the near-term.

Individual initiatives often run over budget and past deadlines and fail to deliver expected outcomes. These failures often originate with a lack of quantifiable and directly attributable initiative targets, as previously described. Additionally, many firms fail to regularly reforecast targets during initiative delivery, leading to unrealistic targets and limiting management's ability to identify initiatives in need of adjustment or reprioritization. Some firms also lack the technology, data, analytical capabilities, and operational capacity to monitor initiatives, leading to infrequent and ineffective oversight. Finally, many firms develop their initiatives and operating plan in relative isolation, leading to operating plans that do not serve as a realistic baseline for measuring performance.

Less commonly, firms "over-engineer" their initiative monitoring (this is typically limited to a selection of initiatives rather than a consistent approach applied across the portfolio). In these cases, firms may produce targets that are overly granular, difficult to measure or attribute, and/or for which it is difficult to capture information on realized results during delivery. These attempts typically fail to provide anything beyond false precision, while introducing operational burden to collect information and analyze performance. We recommend that firms scrutinize the metrics they intend to track to ensure they are truly useful and eliminate those that are not, and consider the operational impact of tracking a metric.

Finally, firms rarely have a robust process and methodology to revisit the overall initiative portfolio or individual initiatives (for example, based on deviation from target metrics) on a periodic basis. Given the absence of timely monitoring of performance, firms struggle to nimbly adjust and reprioritize the portfolio and underperforming initiatives. In the case of large, long-running capital investments, it is particularly critical to be able to rapidly identify issues and begin to adjust (or in extreme cases, eliminate) the initiative given the difficulty in reversing course once materially underway.

Common Challenge D: Culture and incentives are not aligned to balance supporting innovation and enforcing accountability

Seasoned executives at large corporations typically have war stories and battle scars from large initiatives that did not deliver; many rising stars have had their wings clipped on their ascent as they were appointed to lead programs that failed. Individual executives are often penalized for the failure of an initiative, despite a ubiquitous understanding that initiatives do not succeed or fail based on the actions of a single person. Simultaneously, many firms fail to establish incentives for collective accountability, leading to poor engagement from supporting stakeholders. Under existing incentive structures, management often takes a hands-off, individualistic approach to initiative delivery (for example, appointing a young rising star who is eager to take on responsibility as a call option on success), rather than incentivizing the entire management team to sponsor a particular effort and creating a “constellation of incentives” to ensure both collective and individual success.

THE CASE FOR CHANGE: WHY SHOULD COMPANIES FOCUS ON IMPROVING THEIR INITIATIVE MANAGEMENT PRACTICES?

More effective initiative management can improve both direct firm performance in the form of higher growth and operating efficiency, as well as indirect firm performance in the form of a more positive investor perception of management’s deployment of scarce capital, often with a positive effect on valuation multiples. The three most commonly realized benefits are summarized in Exhibit 3 and discussed below.

Exhibit 3: The benefits of effective initiative portfolio management



Greater alignment between business initiatives and enterprise strategy



More efficient deployment of scarce capital and higher returns on capital invested



Clearer articulation of capital investment strategy to internal and external stakeholders

Source: Oliver Wyman Analysis

Greater alignment between business initiatives and enterprise strategy

An initiative portfolio strategy enables management to deliberately direct resources to the firm's most critical priorities across key dimensions (for example, purposes, businesses, and geographies), in line with the firm's strategy and risk appetite. Robust and standardized information capture and rigorous evaluation of initiatives ensure that resources are directed to the most accretive initiatives for the firm, including those that are integral to longer-term strategic objectives and those that are most profitable in the short- to medium-term. Additionally, the information collected during initiative evaluation enables management to better understand, monitor, and adjust portfolio composition and individual initiatives during delivery and as the enterprise's strategy evolves.

More efficient deployment of scarce capital and higher returns on capital invested

The current state of initiative management imposes substantial costs on many firms. Most directly, firms are investing inefficiently, wasting financial resources and management attention. However, the indirect costs may be more severe — firms cannot deliver on their strategic objectives without successfully implementing initiatives that help to operationalize that strategy. Additionally, poor management of initiatives reduces the quality of execution and dialog within the organization and its ability to operate cohesively.

In contrast, leading firms that define a portfolio strategy, provide ex ante guidance, and institute a robust screening process are better able to identify and direct resources to the most valuable initiatives for the firm. Through these mechanisms, these firms are able to eliminate time and attention dedicated to evaluating tactical, reactionary initiatives proposed by businesses and functions that may not be truly accretive to the firm. Additionally, these firms are better able to identify and invest in visionary and transformative initiatives that would be most valuable to the firm and best support management's desired portfolio strategy. With regard to delivery, many firms lack the capability to truly understand performance of the overall portfolio, and, in some cases, of individual initiatives. On the other hand, leading firms that are able to assess portfolio and initiative performance can manage and adjust their investments to ensure that they remain relevant and within expected budgets and timelines — preventing good money being thrown after bad.

Finally, leading firms achieve improved dialog between enterprise-level management and businesses/functions, creating a more integrated and nimbler firm. Firm management gains the transparency needed to effectively scrutinize and debate initiatives before investing and monitor initiative delivery over time. At the same time, executives are better incentivized to stake out a bolder direction that may yield greater benefits and returns for the firm rather than take the safest path of self-preservation.

Clearer articulation of capital investment strategy to internal and external stakeholders

In addition to direct impacts to the firm's financial performance, the strength of initiative portfolio management can materially benefit or damage a firm's valuation. In the current environment of volatile markets and increasing cost of capital, analysts and investors are laser-focused on firms' efficiency. Management of investments and expenses is an ever-present topic on earnings calls across industries.

Leading firms coherently communicate their initiative portfolio management strategy and practices to satisfy analysts, investors, and other internal and external stakeholders. These firms have clear, holistic narratives for how their initiative portfolios both address immediate priorities and invest in longer-term efforts to grow and improve profitability. Additionally, leading firms are able to measure initiative performance and evidence the tangible outcomes delivered — to give the market confidence that the firm can deliver on its investments, manage expenses, sustain competitive advantage, and ultimately expand valuations.

LEADING PRACTICES: TAKING AN ASSET MANAGER'S APPROACH TO MANAGING YOUR PORTFOLIO OF INITIATIVES

We recommend that firms approach their initiative portfolios similarly to how an asset manager approaches its investment portfolio. This requires firms to pro-actively manage their initiative portfolios — including ex ante articulation of a portfolio strategy, a rigorous, gated process for investment decisions, frequent monitoring against measurable targets, and nimble rebalancing. We advise firms to support these practices with a culture that balances rewards for success, collective action to deliver on the firm's priorities, and individual accountability for delivery. We summarize core elements of this approach in Exhibit 4.

Exhibit 4: Leading practices for managing an initiative portfolio



Best practices

- A** Set the initiative portfolio strategy
- B** Institute a robust investment sourcing and decision process
- C** Actively monitor delivery and rebalance the portfolio
- D** Create a culture that prizes innovation and balances individual and collective accountability

Source: Oliver Wyman Analysis

Leading Practice A: Set the initiative portfolio strategy

A clearly articulated initiative portfolio strategy is the foundation for realizing value from investments. We recommend firms develop portfolio strategies as part of their recurring strategic planning exercises. When the portfolio strategy is refreshed, the existing initiative portfolio may be assessed to identify if rebalancing is required.

In defining its portfolio strategy, we recommend that management quantifies its intended investment allocation across one or more key dimensions. The most critical dimension is the ultimate purpose of the initiative (for example, growth vs. operational transformation). Firms that deliberately allocate their investments to key purposes are able to focus their investments on strategically valuable initiatives and better control expenses, particularly by limiting funding given to tactical and reactionary “mandatory” initiatives (for example, repeated spend on technology end-of-life).

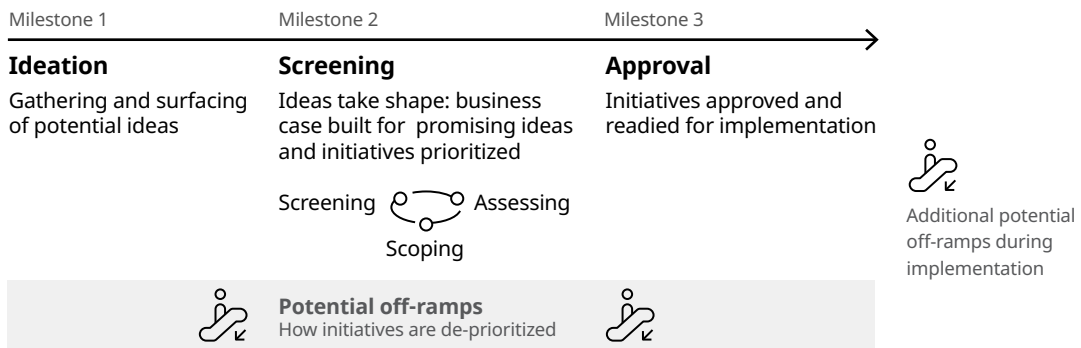
Additionally, firms may consider allocating across other dimensions such as business, function, sales channel, geography, and legal entity; however, we recommend that firms approach this choice judiciously to avoid overcomplicating the portfolio strategy by optimizing around too many dimensions or constraints.

Once the portfolio strategy is established, we advise that management communicates the strategy and associated investment allocation ex ante to businesses and internal functions to ensure that initiative proposals fit within the overall portfolio strategy. We recommend that initiative proposals include the dimensions required to measure portfolio allocations, which enables evaluation of the individual initiative in the context of the broader portfolio strategy.

Leading Practice B: Institute a robust investment sourcing and decision process

An effective approach to initiative sourcing and selection balances comprehensiveness, intentionality, and efficiency in identifying the best initiatives for the firm’s portfolio. In order to achieve these objectives, we recommend a multi-stage sourcing process with multiple off-ramps to deprioritize initiatives before proceeding further into the process. Exhibit 5 illustrates a representative initiative sourcing process.

Exhibit 5: Illustrative initiative sourcing process



Source: Oliver Wyman Analysis

We suggest that firms begin the sourcing process with a structured, light-touch screening exercise, which enables firms to cast a wide net to find innovative proposals while also facilitating rapid and efficient prioritization of initiatives for detailed scoping and evaluation. We recommend that requirements for initiative proposals increase as they progress further into the sourcing process — for screening, initiative proposals may be relatively less developed versus initiatives that are being reviewed for final budget approval. This approach allows organizations to reduce the effort required in the early stages of initiative development, while requiring more meaningful detail prior to receiving approval.

During this screening process, we recommend that firms scrutinize the composition of the set of potential initiatives to ensure that there is sufficient variety and coverage across businesses and functions. For example, higher-performing businesses may consistently submit robust initiative proposals that pass the screening process, while lower-performing businesses, more in need of management attention and funding, struggle to submit effective proposals and therefore fail to attract investment. We advise management to play an active role in the screening process to ensure that each business and function puts its best foot forward in defining and submitting initiative proposals.

A standardized framework for initiative proposals is a critical element to enable informed investment decisions, embed initiatives into the firm's budget or operating plan, and support monitoring of performance of both individual initiatives and the overall portfolio over time. An effective framework begins with standardized requirements for initiative proposals; we recommend that these requirements include the dimensions needed to aggregate and measure portfolio allocations such that management can evaluate the initiative in the context of the broader portfolio strategy. We advise that initiative proposals include targets for measurable and directly attributable outcomes of the initiative to enable evaluation and comparison of initiatives pre-investment and performance monitoring post-investment. For long-running capital investments, we recommend that targets are periodically refreshed during delivery to ensure that they are appropriate given the latest information. We also advise that initiative proposals are produced with attributes and granularity that enable them to be incorporated into the firm's budget or operating plan, which ensures an appropriately calibrated budget and enables more precise monitoring of performance.

When evaluating initiatives, we recommend that management assesses initiatives relative to the stated portfolio strategy and maintains discipline around planned portfolio allocations. When reviewing individual initiative proposals, we recommend that management scrutinizes the categorization of initiatives (for example, whether an initiative is truly mandatory) and unrealistic and/or unjustified targets. We advise firms to take an objective, Investment Committee-like approach to selecting initiatives, rather than bowing to lobbying. Through this analytically rigorous approach, firms can better direct investments to build an intentionally designed portfolio of valuable initiatives and lay the foundation to manage and monitor the delivery of those initiatives.

Leading Practice C: Actively monitor delivery and re-balance the portfolio

Effective monitoring of initiative delivery and performance is critical to translate initiative ideas into tangible benefits for the firm. We advise firms to establish the technology, data, and operational processes to be able to monitor individual initiative metrics relative to established targets and thresholds, as well as performance and composition of the overall portfolio. It is particularly critical that firms are able to effectively aggregate and assess the overall initiative portfolio, including understanding implied allocations and being able to segment and further scrutinize across key dimensions (for example, spend on technology end-of-life programs). When designing a monitoring approach, it is important to balance the need for granular analysis versus the operational reality — we recommend significant scrutiny of any proposal to track metrics that are not collected in an automated fashion.

Once the underlying capabilities are established, we advise that initiative portfolio performance is reported to management at a defined cadence. Frequency of reporting may vary by audience, with initiative owners receiving updates more frequently than firm-wide management. We recommend that reporting flags any initiatives with performance materially deviating from plan, and any material deviations from the portfolio's target allocation.

We advise firms to establish governance structures and processes for the regular (for example, quarterly or semi-annual) review of the initiative portfolio. It is important to establish a defined methodology and process, including definition of thresholds that prompt review of underperforming initiatives, to identify and take action on initiatives where performance materially deviates from plan. Some firms have successfully employed "metered funding," wherein investment levels are contingent on achieving targets (there may be multiple thresholds for targets and corresponding investment levels). Initiative reviews may require discussion of potential actions (including hold, adjust, or exit) and documentation of decisions and rationale. Additionally, we recommend that firms regularly evaluate the overall portfolio relative to firm strategy, risk appetite, and target allocations and consider rebalancing if appropriate. Given the long-tailed nature of many investments, it is critical that firms take a multi-year view of the portfolio's evolution and begin adjusting allocations early and proactively.

Leading Practice D: Create a culture that prizes innovation and balances individual and collective accountability

The success or failure of firms' initiative portfolios depends on the ability of their people to deliver initiatives. To maximize the likelihood of success, we recommend that firms establish positive incentives to reward individual executives for owning large, complex, or uncertain initiatives that support firms' portfolio strategies. At the same time, it is important for firms to establish the "constellation of incentives" needed to make the entire organization collectively feel it has skin in the game and contribute meaningfully to cross-functional initiatives.

For executives to feel comfortable and motivated to take on initiatives, we advise firms to apply a measured and objective approach to managing initiative performance. Initiative performance needs to be assessed contextually and consider the impact of external factors; individual executives do not have complete control over the success or failure of an initiative. We recommend that firms focus on establishing individual accountability (including through incentives) for elements that are within a person's control, particularly delivery quality, timeliness, and cost discipline. Outcomes that are outside of an individual's control and/or materially impacted by external conditions (for example, below-target enrollments in a new premium credit card product during an economic downturn), may be identified and excluded from the assessment of the individual's performance. We advise that firms balance carrots and sticks; it is critical to avoid a culture where executives feel that any failed initiative (for any reason) will sink a career.

TAKING ACTION: SUGGESTED ROUTE TO IMPROVING PRACTICES

Establishing effective initiative management can be a daunting challenge and many firms need to develop a number of foundational capabilities, each of which may be substantial in isolation. Therefore, we recommend that firms prioritize starting the journey, but do so in a controlled manner by launching low risk, no regrets actions prior to scaling. Based on our experience with firms across stages of maturity of initiative management, we recommend a staged transition with a series of phases that build upon each other, as shown in Exhibit 6.

Exhibit 6: Initiative portfolio management transition roadmap

Step 1 →	Step 2 →	Step 3 →	Step 4
<p>Diagnose current state and define a portfolio strategy 1-3 months</p> <ul style="list-style-type: none"> • Diagnose current initiative portfolio management practices • Define target initiative portfolio strategy • Assess current initiative portfolio allocations 	<p>Articulate ambition and roadmap 1-3 months</p> <ul style="list-style-type: none"> • Define objectives and ambition for initiative portfolio management • Agree on the target state • Define a roadmap to achieve the target state and identify near-term “no regrets” actions 	<p>Test and learn 3-6 months</p> <ul style="list-style-type: none"> • Identify and execute pilots for new or upgraded capabilities • Synthesize learnings from pilots and identify implications for scaling • Re-align on target state and roadmap in light of learnings from pilots 	<p>Scale and embed 6-12+ months</p> <ul style="list-style-type: none"> • Build target state capabilities • Conduct “dry run” exercises using new capabilities • Go live

Source: Oliver Wyman Analysis

Step 1: Diagnose the current state and define a portfolio strategy

We recommend that firms begin by assessing their current initiative portfolios and the maturity of their initiative portfolio management practices. A thorough current state assessment can provide transparency into current investment allocations as well as the comprehensiveness and quality of information being captured for initiatives.

As part of this exercise, we recommend that management develops a portfolio strategy and target allocations, if they do not exist. This would include establishing a taxonomy for initiative types and guiding principles or methodologies for portfolio allocation. If the current portfolio composition does not reflect the strategy, we recommend that management defines a path to migrate the portfolio toward target allocations over time.

When diagnosing the maturity of initiative management practices, we recommend that firms look across the entire initiative lifecycle. Firms may have differing levels of maturity at different stages of the lifecycle; for example, some firms may have a well-defined portfolio strategy and a robust investment decision process, but struggle to effectively monitor delivery and constrain costs. Significant value may be realized by remediating gaps at any stage of the lifecycle. Learnings from a current state diagnostic can help firms understand the types and magnitude of gaps to target state and wisely prioritize near-term enhancements.

Step 2: Articulate ambition for improvement and develop a roadmap to deliver

While there are broad principles for strong initiative portfolio management, each firm will need a tailored approach. We advise that firms employ a methodical approach to define a target state that achieves key objectives and can be operationalized within the context of the firm. Exhibit 7 contains a sample of key questions for consideration when defining a target state and associated roadmap.

Exhibit 7: Key questions to define a target state and roadmap

- Who will be responsible for defining the initiative framework? Who will be responsible for key activities within the initiative lifecycle (for example, setting portfolio strategy, assessing new initiatives, monitoring and reporting initiative delivery)?
- What is our portfolio strategy? How rigidly do we intend to manage investments to our target allocations? How frequently will we review and rebalance the portfolio?
- How closely will key exercises (that is, strategic planning, initiative portfolio management, and budget or operating plan) connect?
- What requirements will exist for initiative proposals, for both initial screening and investment decision review? How will initiative proposals be captured in the budget or operating plan?
- What requirements will be established for monitoring of initiatives and the portfolio (for example, required metrics, granularity, frequency, thresholds/requirements for underperforming initiatives)?
- What quick wins can the firm implement to mitigate existing challenges quickly and at limited expense?
- By when does the firm want to achieve target state?

Source: Oliver Wyman Analysis

Step 3: Test and learn

Once the firm has defined its ambition, it may begin to deliberately build toward the target state. We recommend that the initial build focuses on quick wins and “test and learn” pilots. Quick wins focus on solving existing challenges while requiring limited time and investment to implement. For pilots, we advise that firms identify areas where capabilities can be tested within a limited scope — for example, testing initiative proposal requirements for a specific business, function, or geography. These pilots will identify necessary improvements and changes prior to scaling, which significantly reduce both operational risk and potential implementation expenses. Additionally, engaging different parts of the firm during pilots will drive buy-in and create “champions” who can help deliver change across the organization when scaling. Firms may execute several “waves” of pilots to iteratively improve design and expand the scope of pilots across required capabilities and organizational areas.

Step 4: Scale and embed

Once equipped with a target state design, roadmap, and a partial set of capabilities developed through pilots, firms will be ready to scale their initiative management capabilities across the organization. This will require extending pilot capabilities to remaining business units, and developing incremental capabilities where needed. We advise that firms execute a series of “dry runs” prior to the full suite of capabilities being deployed to ensure that issues are proactively identified and remediated prior to the target state going live. A clear mandate from senior management and the engagement of “champions” developed in prior phases are critical to driving the cultural change needed to effectively scale and embed across the organization.

CONCLUSION: MAKE EVERY DOLLAR COUNT

Many firms continue to invest in and manage their initiatives with limited rigor, leaving significant value on the table. In the face of a more challenging economic environment and increasing investor scrutiny, better deployment of scarce resources is critical to firms’ performance. A deliberate initiative portfolio strategy and robust underlying capabilities are critical for firms to navigate this environment and outperform relative to the market. Stronger initiative management presents the opportunity to manage costs, increase returns on investment, improve firms’ operations and execution, and ultimately expand valuations. Leading firms have already started to embark on the journey to stronger initiative management, which often entails a large, multi-year body of work. Firms that cannot effectively manage their initiative investments will be at a competitive disadvantage and punished by the market — for firms that are not yet on the journey to stronger initiative portfolio management, the time to start is now.

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