



5 tips for Value Creation: Portfolio Management

Capability Enhancement

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ABSTRACT

The World has been witnessing a number of changes across ages, across industries, across regions, across professions. Be it the Green Revolution of the farming industry, the Industrial revolution of the manufacturing industry or the White revolution of the food industry, we certainly acknowledge the changes these revolutions have brought in. We are now experiencing the IT revolution and the changes this has made to our lives. Project management is indeed the backbone of this successful IT revolution.

Just as any other profession, project management has been evolving too. Both clients and organizations are craving for greater "Value". Gone are the days when clients and organizations strived for On-time delivery, in Scope, within Budget, topped with Quality. The demand is way beyond these factors. Clients and Organizations are looking for greater business value, improved market share, gaining competitive edge, to name a few.

So, how well are we preparing our managers/leaders to meet/exceed this demand? Are we raising the bar and enhancing their capability to deliver Greater Value? Can we prepare them to extend their horizon and look beyond?

This paper focuses on developing this competence through various aspects of Portfolio Management. Our managers and leaders have to shift their mindset from ***"Executing the projects right"*** to ***"Executing the right projects"***. The various aspects of portfolio management help managers transform from a tactical mindset to a strategic one.

An interesting case study of Honda, a leading automotive company, provides a live example to substantiate these principles of Value Creation.

INTRODUCTION

What is Value? In simple words, Value is just a measure of the benefit that may be gained from goods or service. It is the extent to which a good or service is perceived by its customer to meet his or her needs or wants, measured by customer's willingness to pay for it. It generally depends more on the customer's perception of the worth of the product than on its intrinsic value.

So, how do we “create” Value? As managers, it is important for us to understand that the whole purpose of project management (as well as portfolio and program management) is to execute work that provides increased “value” to the business or customer. The most important aspect of project management is “*delivering business value to the customer.*”

As per PMI, Business value may be defined as the sum of all tangible and intangible elements of a business where, for example, tangible elements include monetary assets, facilities, fixtures, equity, tools, market share, and utility. Intangible elements may include goodwill, brand recognition, public benefit, trademarks, compliance, reputation, strategic alignment, and capabilities.

Effective use of portfolio, program, and project management practices enables organizations to employ standard processes to pursue new business strategies consistent with its mission and vision for the future, thereby generating greater Business Value.

Having understood the need for project managers and program managers to provide greater value to their customers, it is imperative to understand the aspects that aid to make this happen. The Five domains of portfolio management help managers raise the bar, understand the bigger picture, look beyond the horizon and help generate Value to their clients.

This paper provides insight into each of these domains in detail so as to help our managers enhance their capabilities to deliver this Value. The case study of Honda, a leader in the Automobile industry, throws light on the practical applicability of these concepts; thus helping the managers appreciate the same.

DETAILS OF THE PAPER

This paper explains how to deliver greater Business Value, through the concepts of Portfolio management. These concepts help the managers understand their Organization's Vision and Mission, understand their Organization goals and objectives, the strategies being adopted to achieve these goals and objectives, thereby helping them deliver greater Value to their clients. It also helps them understand and appreciate the bigger picture.

The case study of Honda brings to fore a real-life scenario. This helps managers appreciate how these concepts of Portfolio management have been, or, are being applied in day to day life across industries. The practical applicability of the concepts boosts their confidence to understand their clients' needs better and thus deliver greater Value.

5 STEPS TO LOOK BEYOND THE HORIZON

Even before we start looking into the theoretical aspects of Business Value or Portfolio Management, we should first start posing few questions to ourselves which could help us move from "Good" to "Great". Some of these leading questions could be:

- Why is this project important for the client?
- Do I have insight into my client's Vision and Mission?
- What are my client's goals and objectives? How does this project align to it?
- How can I add Value to my client? How can I be a differentiator for my client?
- Do I have the complete picture? Do I see the Horizon?
- Can I move my horizon itself and look beyond?

These type of questions will naturally ignite the fire in us and charge us to deliver better. Now that we acknowledge we have to do something more, something different, something extraordinary, to create that Value to our clients, let us now see how to make it happen.

While it all sounds easy to say that I will make a difference and create Value to my clients, doing so is not as easy nor as simple. We need to have a deeper understanding of what the term "Value" means to our clients and how we can make it happen for them. We need to transform our leadership skills to deliver this "Value".

So, what are these areas we need to focus, which could take us to the next level? We look at 5 major areas of Portfolio management, that could drive this.

1. Alignment to the Organization Strategy, Goals and Objectives
2. Strong Governance

3. Good performance monitoring and controlling system
4. Proactive risk assessment with clear measures to respond and control the risks
5. Clear communication engaging all stakeholders

Establishing strong processes around these areas helps setup a robust system to aid our project delivery.

STRATEGIC ALIGNMENT

Given my project, understanding the Scope, Timelines, Cost and Quality aspects is the bare minimum, my client would be looking for. What more do I need to understand to make a difference? In order to answer this, let us take a top-down approach. Figure 1 below shows the relationship between portfolio, programs, projects and processes in an organization.

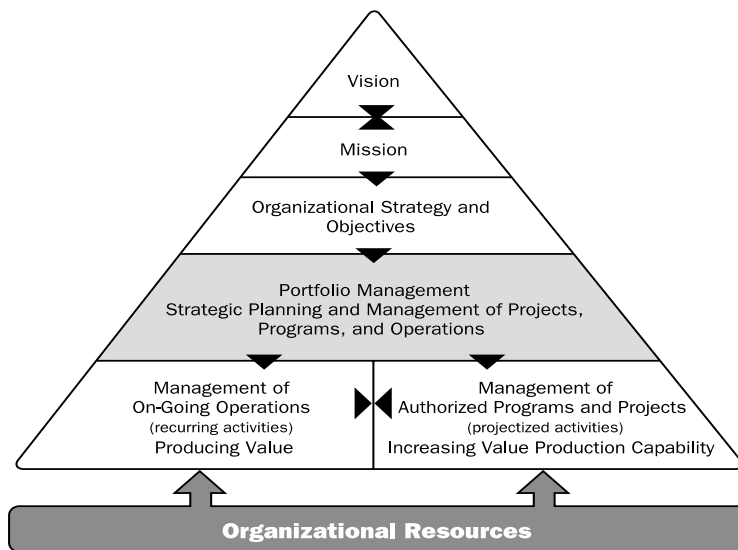


Fig. 1 - Relationship between portfolio, programs, projects, and operational processes in an organization.

Every successful organization has a well-defined Vision and Mission, which generally are from a long-term perspective. It defines where the organization is headed to. The Organization identifies its goals and objectives, in line with the Vision and Mission, which are usually defined over a short term. The Organization then develops strategies to achieve these goals and objectives. As managers, we need to understand the Organization's Vision/Mission, goals and objectives and the strategies to achieve the same. We now need to see how our project or program or portfolio aligns with this strategy.

Certain tools and techniques like Strategic Alignment Analysis, Prioritization Analysis, Capability and Capacity analysis, etc. help us to understand how well our project is aligned to the Organization's strategy (could be client's organizational strategy too).

As quoted by Antoine de Saint-Exupéry, *“If you want to build a ship, don't drum up the men to gather wood, divide the work, and give orders. Instead, teach them to yearn for the vast and endless sea.”*

If we understand the vision and business value of the project, we will surely “yearn” for the ability to deliver that business value to the customer.

GOOD GOVERNANCE

Setting up a strong governance, identifying the right stakeholders as the steering committee, ensuring effective decision making are crucial for the success of our project(s)/program/portfolio. It is natural to feel we are doing the right thing, the right way and we do not need a policeman to check how we are managing our projects. However, it is always advisable to have a team that can keep a watch on the progress of our project. This governing body also needs to be empowered on the decision-making.

Setting up a good governance is akin to having a routine health check and taking immediate measures to stay healthy, rather than waiting for the disease to flare up and kill us.

PERFORMANCE MANAGEMENT

Just as much having a good governance ensures good oversight with effective decision-making, we need to have an effective way of monitoring and controlling the progress of our project. How well our project is progressing towards achieving its strategic objectives needs to be continuously monitored and evaluated.

A well-defined, clear and precise dashboard reporting the required parameters aid us on this front. Tools like Benefits Analysis also indicates the progress of the project towards achieving the desired benefits, thereby aiding the decision-making activities of the governance body. Immediate corrective actions can be taken in case of any deviation on any of the parameters being monitored and evaluated.

Organizations periodically publish their balanced scorecard to demonstrate their performance and the progress towards achieving their organizational goals and objectives.

PROACTIVE RISK ASSESSMENT

“Oh, no! I just didn't expect this...”; “Oops, if at all I had thought of this earlier, things would have been lot more different...”; “Oh God! How could I not think of this?” - don't these sound very familiar? Certainly, yes. What leads us to such situations? Can we minimize such uncertainties and increase the success rate of our projects?

Proactively identifying risks from all perspectives is key to address such issues. Being proactive in identifying risks from a holistic perspective, helps handle unexpected situations. “Expect the Unexpected” is the mantra to identify risks. Risks once identified, have to be prioritized and planned with well defined action(s) to respond to the risks, and to mitigate and control the risks.

STAKEHOLDER ENGAGEMENT

While we, as managers, may be able to ensure strategic alignment of our project, design a strong governance, and proactively manage the associated risks, we also need to be cognizant of the fact that this does not suffice. Our team also needs to perform at a higher level to deliver Value to our clients. How do we motivate our team? What about the other stakeholders who support us on this delivery? How do we engage them and enthuse them to deliver greater Value?

We need to have a clear strategy on our communication too. Every stakeholder should understand the vision and business value of the project. Each one will then strive to deliver that Value to the client. It is our responsibility to make sure we help them understand the bigger picture and the value of the project so that they are better engaged and equally enthusiastic to deliver this Value to our clients.

TRANSFORMATIONAL LEADERSHIP

In order to drive the above 5 points across our team, we need to transform our Leadership skills. We, as managers, need to have clear vision of our project. A well defined roadmap should be laid out to know where we are and where we are going. It is equally important to align our project with the organizational goals and objectives. Thus, we need to shift our mindset from “*Executing the projects right*” to “*Executing the right projects*”.

Just as much as we individuals need to transform, organization also has to transform through strategic changes so as to add Value to its clients. Organizational transformation could be a response to a crisis, or to address the need towards market repositioning. Organizational Transformation could also occur as a response to technological changes, or adapting to new business models. Organizational transformation thus becomes inevitable to get that competitive edge and gain market share.

Let us now look at how these aspects of Portfolio Management have been embedded across Honda, that has helped them deliver Value to their clients, thereby positioning them as an Industry Leader in the Automotive Industry.

HONDA'S BUSINESS VALUE PROPOSITION

We substantiate the above mentioned concepts through a case study from one of the world's most Innovative Car Company, HONDA Motors.

HONDA'S VISION

2030 Vision: *Serve People Worldwide with the "Joy of Expanding their Life's Potential"* - Lead the advancement of mobility and enable people everywhere in the world to improve their daily lives.

Honda is also pursuing it's **2010 Vision:** *Striving to be a company society wants to exist through creating new value, globalization, and commitment for the future.*

MISSION

Maintaining a **global point of view**, we are dedicated to supplying the **highest quality products** at a **reasonable price** for **worldwide customer** satisfaction.

STRATEGY

HONDA has a 4-stage strategy across the organization:

1. **Corporate Strategy**
 - Automobile Industry
 - Motorcycle Industry
 - Power Business
2. **Business Strategy**
 - R&D System
 - Globalization Characteristic
 - The "Joy of Selling" – Dealership
 - Create inspiring experience for its customers
 - Response to changing value
 - Increasingly complicated needs of customers
 - Improve Customer Relations
3. **Operational Strategy**
 - 6 administrative regional groups
 - Independence of local management and sales operations
 - High level of transparency
4. **Individual Strategy**
 - "The Three Joys" – Joy of Buying, Joy of Selling and Joy of Producing

- Organizational Culture – Respect for Individual
- Innovation Management
- Managing People – environmental training, diversity in employment

As can be clearly seen from the Vision, Mission and the Organizational strategy, Honda places prime importance to its customers and constantly seeks ways and means to create Value proposition to its clients.

STRATEGIC MANAGEMENT

Honda is one of the most ideal companies to understand how the concepts of strategic thinking process are applied in real business environment.

Honda is known to have maintained a *Global Outlook right from Day One*. Honda always believed in global expansion and famously bemoaned the limited growth opportunities in “little Japan”. Honda's aggressive early globalization strategy in the U.S. was followed by similar successful forays in other parts of the world: It was the first Japanese company to produce cars in China and its earnings record in India and Southeast Asia and other far-flung regions is the envy of the auto industry,

So, What is it that has made Honda excel as a global multinational? Here are the 5 main strategies that distinguishes Honda from other car manufacturers:

- ❖ **Don't Globalize, Localize** - Honda, unlike many of the world's key automotive companies, isn't controlled by a headquarters but rather allows each of its subsidiaries to operate as autonomous companies. By avoiding a top-down approach, the company allows its subsidiaries to design and build vehicles based on local demands
- ❖ **Encourage Your Employees to Question the Status Quo** - Critical thinking is heavily promoted at Honda. As one of its executives said: “Waigaya (daily, spontaneous meetings) means perpetual dissatisfaction. At our company, self-satisfaction is the enemy.”
- ❖ **Don't Rely on Robots** - Honda's factories are purposefully the most labor intensive in the auto industry, employing robots only in areas that are dangerous or otherwise obviously less fit for humans than machines. As far as Honda is concerned, by introducing robots at every stage of the design and build process, employees become disengaged and innovation is lost.
- ❖ **Listen to Engineers** - All CEOs of Honda have been engineers, veterans of its R&D unit. As such, their strengths lie in product and process innovation. Moreover, their success is not measured not by quarter-to-quarter results but instead by how well they cultivate individual creativity throughout the organization.
- ❖ **Focus on Factory Flexibility** - Unlike other manufacturers, Honda can seamlessly produce multiple autos on a single assembly line, one after another, and switch a line over to a newly designed vehicle within hours. One way Honda achieves this is through in-house engineering located at each major production facility. This gives Honda the advantage of being able to alter production and capacity of

individual models at a moment's notice, depending on local sales trends and the success of competitive brands.

CORPORATE GOVERNANCE

Honda strives to enhance corporate governance as one of the most important tasks for its management, so as to ensure sustainable growth. This enhancement of corporate value over the mid- to long-term; is completely in line with its strategy to become "***a company that society wants to exist***".

The company has enhanced the supervising functions of the Board of Directors and raised the effectiveness of the Board, by enriching the discussion on mid-term to long-term business strategy and by providing more information to outside directors.

The Board of Directors comprises 14 members (comprising of 9 Inside Directors and 5 Outside Directors, or 12 men and 2 women). In order to respond to the mandate of the shareholders to achieve sustainable growth and enhance the corporate value of the Company over medium to long term, the duties of the Board of Directors include making decisions concerning key Company matters such as its basic management policies and monitoring of operations.

In order to further strengthen the supervisory function of the Board of Directors and speed up decision-making, Honda has adopted the Company with Audit and Supervisory Committee that enables increased segregation between the supervisory function and the business execution function and further delegation of the business execution authority to the Executive Directors.

To solidify trust in Honda among customers and in society, "Honda Conduct Guidelines" has been issued as a code of conduct to be practiced by all personnel working in the Honda Group.

PERFORMANCE MANAGEMENT

Honda follows the Total Quality Management (TQM) philosophy for continuously improving the quality of products and processes. Their Quality Objective is "to maintain an international viewpoint; they are dedicated to supplying products of the highest efficiency yet at a reasonable price for worldwide customer satisfaction".

Honda's Quality Cycle is as shown in Fig.2 below.

Key Performance Indicators (KPIs) are well defined. These KPIs are constantly monitored and the performance is closely tracked to ensure corrective measures are taken at the early stages of deviation, if any.



Fig. 2 – Honda's Quality Cycle

RISK MANAGEMENT

Honda recognizes that the client's role is central to the success of its business. It also understands there are risks in all areas of business. Its strategy is therefore about Risk Management and not Risk Avoidance.

Honda follows a philosophy of identifying risks before they arise, thereby encouraging a culture of pre-empting and rigorous testing. Key project risks have been part of the weekly project meeting so that countermeasures could be put in place.

Honda's own core values and culture demand that the *status quo* is forever under threat. So, Honda is constantly considering new tools and methodologies through innovation. This clearly distinguishes Honda as a "Risk-seeking" organization, while most of the other manufacturers are "risk-averse".

COMMUNICATION MANAGEMENT

Honda is fully aware that while companies can connect an emphasis on dialog with stakeholders to the expansion of business opportunities and creation of fans, wrong responses can lead to major risks of reputation. With this

awareness, Honda engages its stakeholders through a variety of opportunities, with the Sales Department and Customer Relations Centre (CRC) acting as points of contacts for customers, purchase department for the suppliers and operational sites establishing local community relations desks. A communication cycle has been put in place to engage diverse stakeholders to grasp and understand the demands and expectations placed on Honda, work these into concrete measures and finally listen to stakeholders' evaluation of it's activities.

Fig. 3 below is a clear depiction of Honda's effective stakeholder engagement.

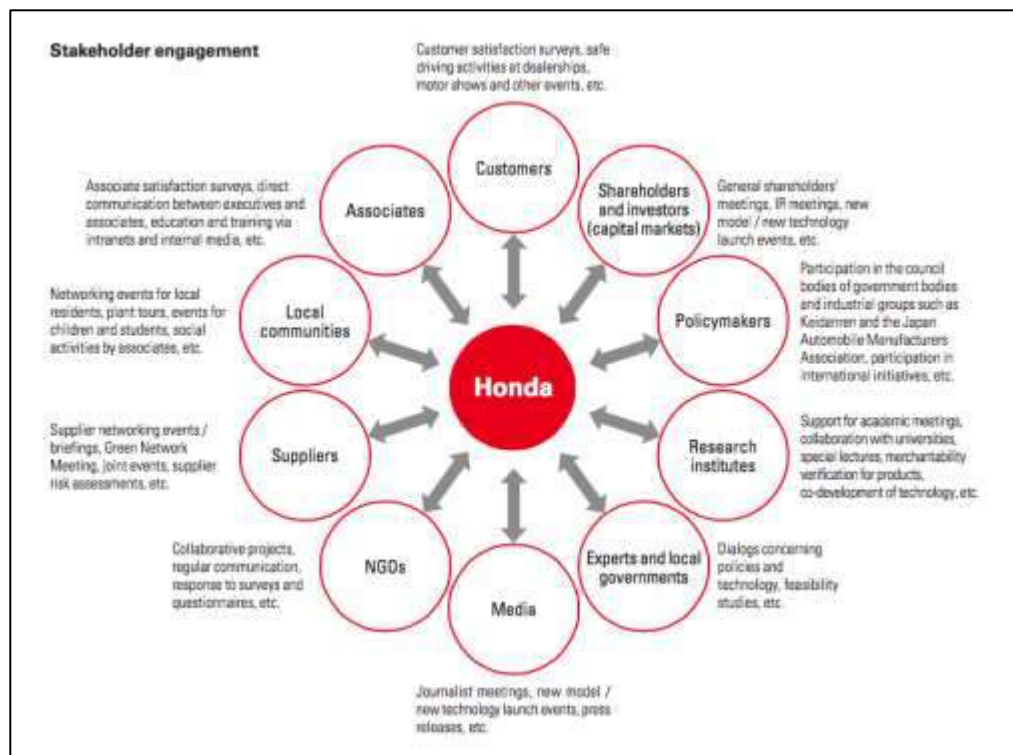


Fig. 3 – Stakeholder Engagement at Honda

HONDA PHILOSOPHY

The Honda Philosophy is composed of Fundamental Beliefs (Respect for the Individual and the Three Joys), the Company Principle, and Management Policy. Their Philosophy forms the values shared by all Honda group companies and all of their associates, and is the basis for their corporate activities. Moving beyond words alone, Honda incorporates this Philosophy into their educational programs and gives it life throughout their decision-making in everyday business activities and management, so that every person in the company can responsibly continue applying the Philosophy into practice.

Fig. 4 below depicts this pictorially and also explains this philosophy in detail.

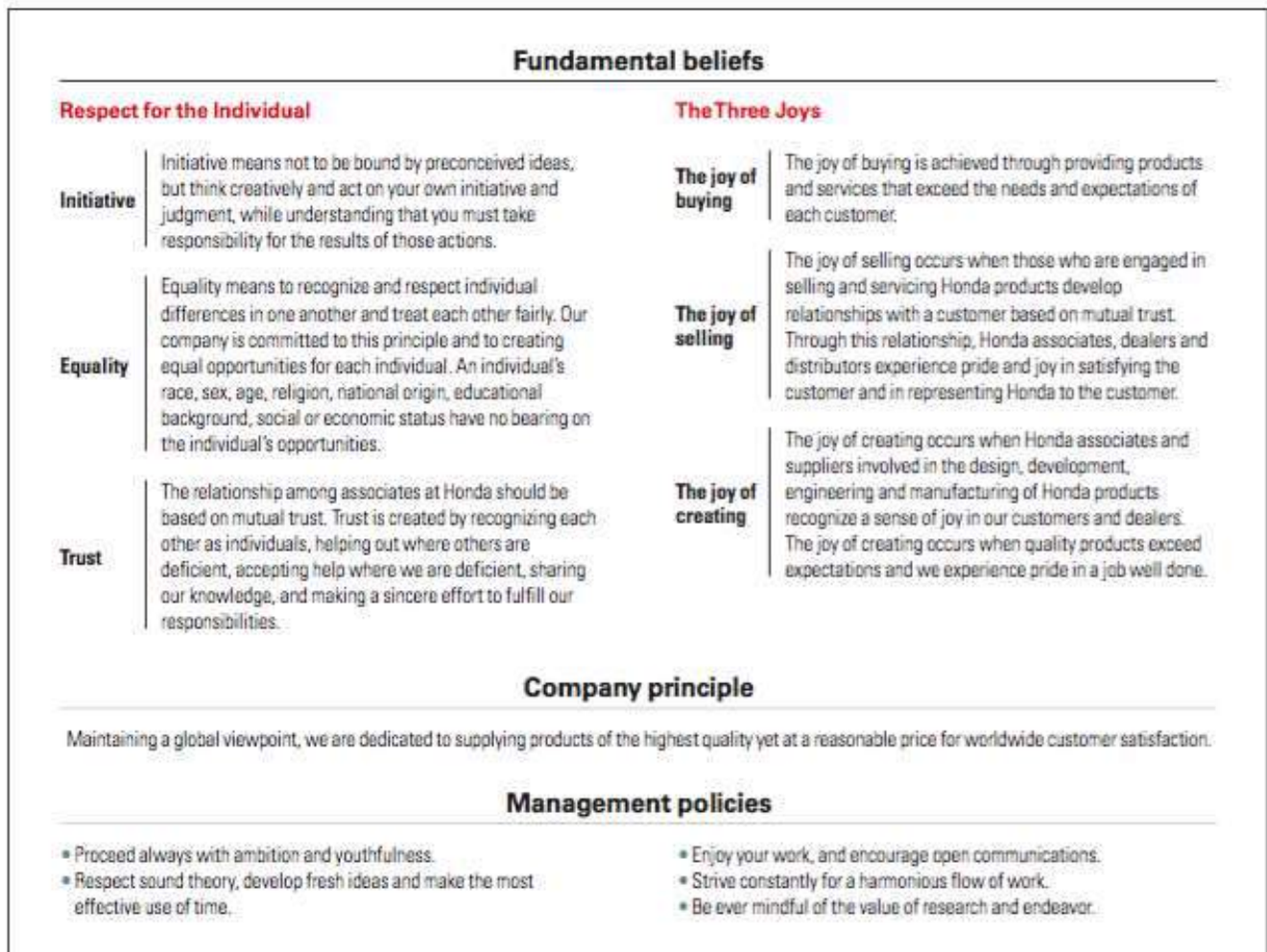


Fig. 4 – Fundamental Beliefs, Principles and Policies of Honda

Honda has clear objectives, which in turn translate into business strategy. These objectives comprise a global brand synonymous with Quality. However, part of the strategy to achieve this objective is to create an environment, which encourages “thinking the unthinkable” and “challenging the status quo”. The achievement of Honda is that it manages the paradox created by risk.

To summarize, the following points clearly indicate the Business Value Proposition that Honda offers its customers, namely:

1. *Honda Quality & Assurance can't be replaced by anyone*
2. *Honda Promotional Strategies are distinct and strike Honda directly in Mind*
3. *Honda uses new Technology to promote their existing products.*

CONCLUSION

The key to change is trust. If people trust in the future scenario, they will let go the past. If people trust their leaders, they will believe the change vision. Organizational transformation is imperative to deliver Business Value to our clients. We have seen organizations like Johnson & Johnson, IBM, Procter & Gamble, etc., who have successfully survived in the industry for more than 100 years. These organizations have been continuously transforming themselves, their teams and the organizations, thus demonstrating time and again that innovation is key to their success.

As a leader, it is important for each one of us to be that change agent and enable our teams as well as our organization transform through innovation and new tools and techniques. *As Charles Darwin says, "Its not the strongest species that survive, nor the most intelligent, but the most responsive to change"*

Clients are highly demanding and we need to strive to exceed their demands and deliver greater Value to our clients. Having a clear Vision/Mission, identifying the right goals and objectives for the organization, identifying strategic means to achieve these objectives are critical not only for us, but also for our organization. Setting up a strong governance with a well defined scorecard to track the performance, good risk management system combined with a strategy for open and clear communication are some of the elements that help us deliver great business Value to our clients.

As Peter Drucker has rightly said, "Management is doing things right; leadership is doing the right things." It is the Business value we deliver to our clients that stands out as our differentiator against competition.

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