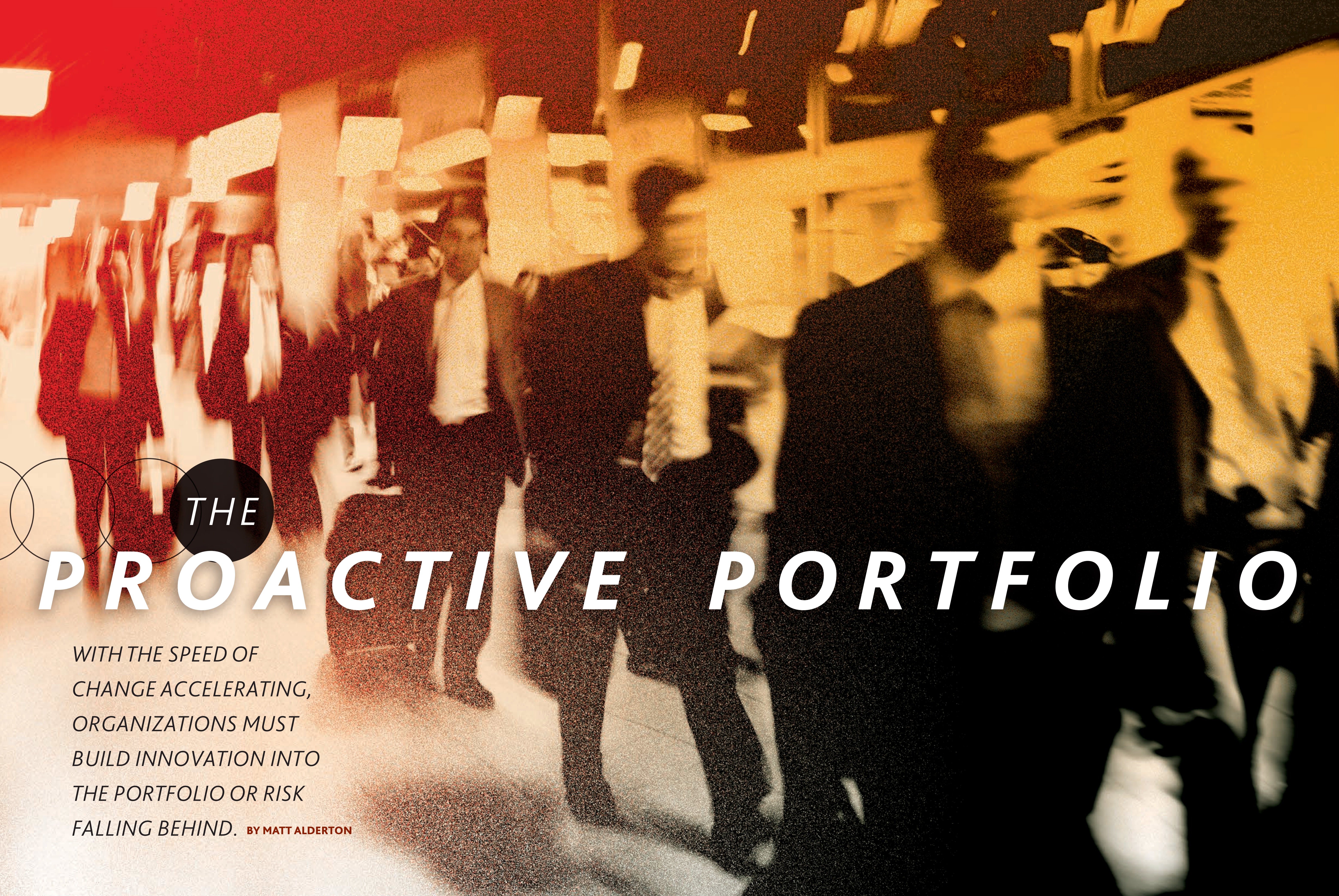

THE PROACTIVE PORTFOLIO

WITH THE SPEED OF CHANGE ACCELERATING, ORGANIZATIONS MUST BUILD INNOVATION INTO THE PORTFOLIO OR RISK FALLING BEHIND.

BY MATT ALDERTON

Forging into uncharted territory is a risky endeavor. But in a rapidly changing business environment, standing still comes with risks of its own. Big name brands such as Blockbuster, Atari and Borders have stumbled or fallen to the wayside due, in part, to a failure to adapt. New technologies accelerate the pace of change, and organizations feel the pressure to build innovation into the project portfolio—before it's too late.

With cloud computing, 3-D printing, drones, robotics and the Internet of Things reinventing "business as usual," even the most risk-averse industries are being forced to innovate, says Anshul Srivastav, PMP, vice president of information technology, Bharti Axa General Insurance Company Ltd., Bengaluru, India. "Innovation is scary, but if you're not doing it, you are losing out," Mr. Srivastav says. "It can happen in any industry—manufacturing, financial services, telecommunications: If you don't change the way you do things, you will collapse one day when some other organization comes along and does."

Based on the volume of patents filed, Thomson Reuters' *2014 State of Innovation* report found an increase in global innovation across 11 different sectors in recent years. (See sidebar, "The Pace Quickens.") CEOs look at the competitive landscape and see growing opportunities—as well as impending risks. About 60 percent of CEOs see more opportunities and/or threats than they did three years ago, according to PwC's 2015 *Global CEO Survey*.

PHOTO BY D. MURALIDHARAN

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To navigate this evolving landscape—and avoid potential land mines—forward-looking organizations must be willing to invest in the right resources, says Ana Maria Riquelme Riveros, PMP, director of IT governance and process excellence, State of Colorado, Denver, Colorado, USA. Before starting her current job in 2011, Ms. Riveros worked in Dubai, United Arab Emirates as head of the IT portfolio management office at Emirates airlines, where she focused on change management best practices.

“Being ‘innovative’ isn’t just putting a bunch of technical people in a room and saying, ‘You guys come up with a bunch of ideas.’ You actually need to have the right resources and innovative company culture to build those ideas,” she says.

Because innovation requires investment, the impetus for it must come not from the project management office (PMO), but from the corner office. “To enable an environment of innovation, you need the buy-in of your CIO and CEO,” Ms. Riveros says. “Without commitment from upper management that the company is going to invest in innovation, it’s very difficult.”

Securing a commitment to portfolio innovation takes solid business intelligence. Senior executives must be able to weigh the risk of maintaining the status quo against the potential benefit of capitalizing on a new opportunity.

“The best way to get buy-in is with analytic data for the sector you work in,” Ms. Riveros says. “If you can show how much other companies in your space have benefited from innovation—if you can demonstrate that innovation isn’t just a risk and an expenditure, but has potential to provide value without breaking the bank—that will help you make your case, even in very risk-averse companies.”

LABORATORY FOR CHANGE

With executive sponsorship secure, innovation-minded portfolio leaders should charter an “innovation lab” that will give entrepreneurial employees space to cultivate creative ideas, Mr. Srivastav says. He recommends taking a three-pronged “SOS”—strategic, operational and social—approach to innovation.

“The strategic vision of the company should be translated to the innovation lab, which develops concrete ideas supporting each of the company’s strategic objectives,” he says. The lab also should support operational innovation, which improves productivity with new processes, and social innovation, which anticipates who will become customers or partners and develops ideas to bring them into the fold. “These three things should be disintegrated and merged into a single unit called ‘innovation,’” Mr. Srivastav says.

BNP Paribas Partners for Innovation, which works with European banks to solve IT challenges, sets a “technological baseline roadmap” to ensure innovations push the organization in the right direction—and that progress doesn’t stall. “The roadmap traces the developments to be implemented and milestones to be reached in support of the company’s strategy for the next five years,” says Pierre-Nicolas Douarche, PMP, project and portfolio management quality assurance analyst, BNP Paribas Partners for Innovation, Paris, France. “This is the entry door for most disruptive innovations. Projects that are part of this baseline have priority over any other project.”

PUSHING THE ENVELOPE

For portfolio leaders, innovation begins with assessing the organization’s appetite for risk—or how far it’s willing to venture into the unknown, says Ms. Riveros.

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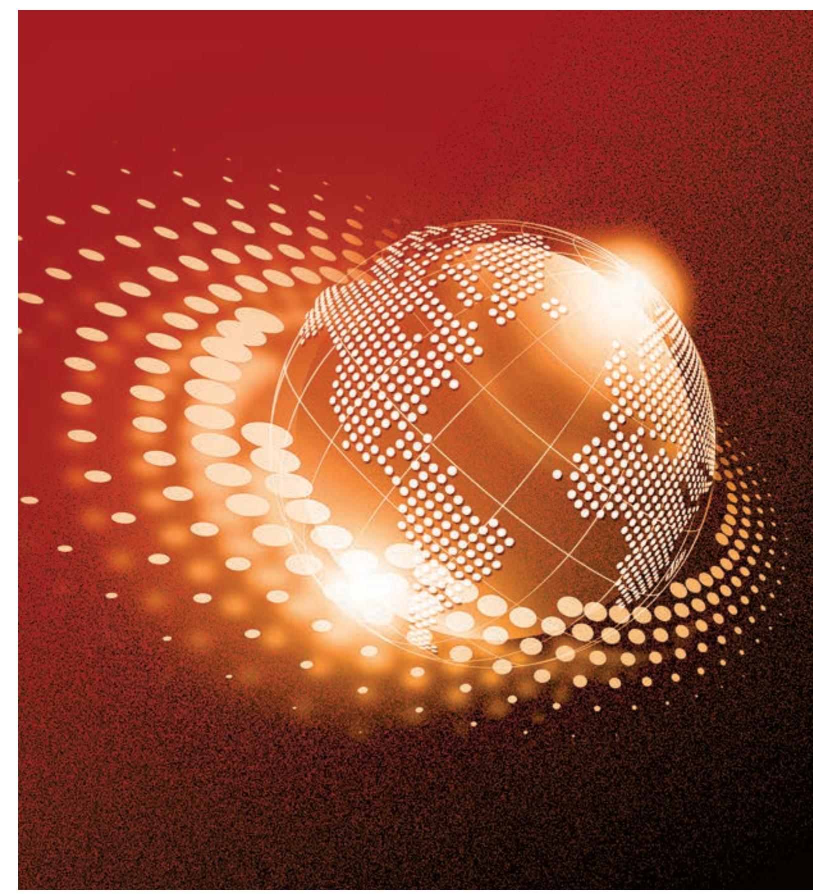


Where Innovation Happens

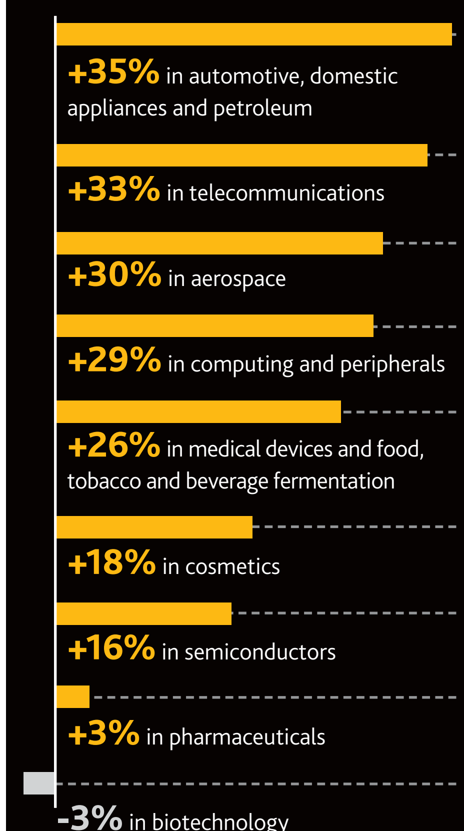
Which economies foster the most innovation? To determine the top 10 performers for the Global Innovation Index, the World Intellectual Property Organization, Cornell University and the graduate business school INSEAD scored 143 economies in seven categories—institutions, human capital and research, infrastructure, market sophistication, business sophistication, knowledge and technology outputs, and creative outputs.

1. Switzerland
2. United Kingdom
3. Sweden
4. Finland
5. Netherlands
6. USA
7. Singapore
8. Denmark
9. Luxembourg
10. Hong Kong (China)

Source: The Global Innovation Index 2014

The Pace Quickens

The pace of innovation is quickening across a multitude of industries. Using the volume of patents granted from 2012 to 2013 as a measurement of innovation activity, Thomson Reuters' *2014 State of Innovation* report analyzed 12 sectors to see where innovation is on the rise around the world.



Source: *2014 State of Innovation*, Thomson Reuters

"Once you know that, you know how far you can push innovation in your portfolio."

To determine risk tolerance, Ms. Riveros recommends using a standard risk-rating system. By using a scale of 1 to 15, for example—where 1 to 5 is low-risk, 5 to 10 is medium-risk and 10 to 15 is high-risk—portfolio managers can systematically score projects' risk levels. Over time, tracking which projects are approved, and which are denied, will give project leaders a sense for where the innovation threshold lies.

"There are many factors—such as sector or type of company—but the level of risk you're able to take ultimately lies with your board of directors, your CEO and how much money they're willing to venture to achieve their objectives," Ms. Riveros says.

The type of project also will influence the risk calculation, says Vikas Patole, PMP, acting chief information officer, Sydney Trains, Sydney, Australia.

"When organizations focus on improving processes and procedures, the risk is low. However, technology innovation carries high risk. And even if a project is successful, commercial benefits may become uncertain due to legal, safety or cultural issues."

To navigate these pitfalls, Mr. Patole advocates an agile approach to project management, including running pilots with selected groups.

"Innovative projects by nature have a short timetable. Being agile helps to deliver quick results that can be tested incrementally to ensure that innovation delivers the adequate outcome for the business," Mr. Patole says. "If the new product or service is not going to meet the expected outcome, we can stop the project without significant investment loss."

Mr. Patole's organization recently executed a workforce mobility project that perfectly illustrates how an agile approach can enable low-risk innovation. "We deployed more than 4,000 mobile devices and various mobile applications to our corporate and field staff," he says. "The positive outcome of the initiative can be partly attributed to being agile, which ensured risk and issues were addressed on time for successful delivery."

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Another way to manage innovation risk is to outsource it to vendors, according to Mr. Douarche. "We usually don't position ourselves first on an emerging technology. Instead we rely on our vendors to make the proofs of concept," he says.

Yet this approach poses its own risk: that lessons learned by vendors won't be shared with the organization. A solution is to form mixed teams, which are more likely to share knowledge, says Mr. Douarche. "Knowledge transfer is an important part of successful innovation," he says. "This often takes the form of mixed teams of internal people and vendors fully dedicated to the program."

A crowdsourcing approach to innovation also can reduce risk. "Share information from innovation labs with the rest of the organization to get feedback," Ms. Riveros says. "Feedback from the crowd—about what will work, what won't work and what are the right questions to ask—really helps the innovation process."

INVESTING IN INNOVATORS

The best tool for managing the risks of innovation probably isn't a process. It's a person—a project practitioner, to be exact. "Innovation projects can't go on for eternity, so you need project managers who are hands-on in terms of what is required and what is being produced," Mr. Srivastav says. "You need someone to govern, moderate and track the cost, time and effort of all innovation activities to turn experiments into results."

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The project managers best suited to helm innovation initiatives think outside the box and find unique solutions to common problems. For that reason, it behooves organizations to help project managers exercise their creative muscles.

"Project managers tend to follow specific instructions," says Diter dos Santos, PMP, head of projects, Rabobank, São Paulo, Brazil. To break this mold, he challenges his team to practice disruptive thinking. "In my team, we have weekly sessions where project managers present a problem they're having that impacts their project. The group tries to find a way to avoid this problem. Every week we talk about how to do things in smarter ways."

Mr. Srivastav takes a similar approach. "I ask my team to carve out a time every day to start doing something differently than they did yesterday," he says. "For example, take writing a piece of code. I might tell my team, 'Yesterday you wrote 2,000 lines of code. Can you accomplish the same thing in 200 lines?'"

Critical and creative thinkers—the battery that powers innovation-focused portfolios—emerge through these types of exercises. And these well-armed practitioners can help steer the organization away from dangerous shoals, Ms. Riveros says.

"If you do business today the same way you did 20 years ago, statistics show that you won't be in the market much longer. If you don't innovate, you die." PM