



RESPONDING TO THE ENVIRONMENT

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When the basis of competition changes in a market place, organisations have to respond and respond quickly in order to remain competitive.

Consider the situation following the recent disaster in Japan. Unsurprisingly, the public feeling about nuclear energy shifted overnight. Organisations have to respond.

Green energy is another area that is causing a re-think in the energy markets. Many car manufacturers have already cut the CO<sub>2</sub> emissions from their vehicles and are now considering the whole production chain. In particular BMW has stated that it will begin installing wind turbines to power its manufacturing plants, reducing demand for energy from traditional suppliers.

The decisions that the energy sector must make have to respond to these and other similar events, causing organisations to re-think their strategies. There are questions to be answered, such as: What has to stop if we pull out of the nuclear industry? What do we replace it with? How do we respond to demands in the green energy sector? If we re-think our strategy, how do our investments change as a result, be they projects, programmes, entire business units or other initiatives? How do you do the assessment? How do you understand the impact?

Portfolio management offers organisations a route to being able to change direction quickly, efficiently and without destroying value.

The process starts with agreement on the strategic imperatives of the company, prioritising them and showing in a measurable fashion how much each investment contributes to the delivery, be that projects, programmes or other initiatives. As a market changes, these imperatives will be altered to reflect the new realities. Understanding the impact of these decisions on the investment portfolio is then a task of assessing each and every project against the new imperatives and assessing its measurable contribution.

For instance, a strategic imperative may say 'Increase share of renewables market in the UK by £100m'. With this – and usually more – strategic imperatives defined, contribution of competing investments can be made.

Clearly, in the real world, there would be a number of strategic imperatives that each investment would be measured against, with the resultant figures providing a prioritised list of projects. Real world constraints then need to be added, such as budgets, skilled resource numbers, risks and benefits, to enable an achievable set of investments to be chosen.

As the market changes, it's important to assess both new and currently running projects to identify those that should be started and, often more controversially, those that should be stopped.

In this way, the company can alter its direction to deal with external pressures.

No one can definitively say how a market will change over time, or indeed when it will encounter a random or unexpected 'Black Swan' event that alters the dynamics drastically, such as the nuclear accident in Japan. However, organisations do try to prepare for these events by developing a set of strategic scenarios to answer the question 'What would happen if...?' and enable effective short and long term planning, even in the highly dynamic markets of the energy sector.

The strategy of an organisation must continually respond to the environment within which it finds itself. Portfolio management ensures that a company not only alters its strategic rhetoric, but also changes the investments that, ultimately, deliver that strategy.

# WHAT WOULD HAPPEN IF...

...events in Fukushima, or another disaster, happened again? How easy is it to change strategic direction quickly? And how do you ensure the right programme is in place to deliver on these aims? *Project* reports

**It was a history-defining moment. Events at Fukushima, Japan, shifted perceptions over the safety of nuclear power and caused nations to re-examine the way in which their energy is produced.**

Almost overnight, long term policy planning was turned on its head, as governments sought to keep pace with the mood of an 'uneasy' electorate.

Prime Minister Naoto Kan said Japan would abandon plans to build 14 new nuclear reactors, saying his country needed to 'start from scratch' in creating a new energy policy.

The announcement came

just days after Mr Kan had said Japan remained committed to nuclear power.

German Chancellor Angela Merkel, too, was forced into an embarrassing u-turn. Only months after promising that she would not be rushed into abandoning nuclear power, it was announced that all nuclear power stations would be phased out by 2022.

She went on to claim that wind and solar energy could meet the shortfall.

"Our energy system has to be fundamentally changed and can be fundamentally changed. We want the electricity of the future to be safer and, at the same time, reliable and

economical," she said.

"That means we must have a new approach to the supply network, energy efficiency, renewable energy and also long-term monitoring of the process."

In the UK the reaction has been less 'knee-jerk' and more measured.

An interim report by Dr Mike Weightman, supported by his colleagues in the Office for Nuclear Regulation, examined the immediate lessons learned for the UK nuclear industry.

He said although the direct causes of the nuclear accident were far beyond the most extreme events the UK could expect to experience, steps should be taken to improve the robustness of nuclear safety arrangements.

These included a review of flooding studies, site and plant layouts, electricity and cooling supplies, multi reactor site considerations, spent fuel strategies and dealing with

prolonged accidents.

The final report is due out later in the year.

## THE PM CHALLENGE

From a strategic perspective, events in Japan – and similar – raise a number of questions.

For starters: How do you apply portfolio management in planning for the long and short term? Or if, like Germany, you cancel the nuclear power programme, how do you change direction quickly while still having to look at the long-term provision of and investment/development in power (traditional gas and electric, renewables, nuclear et al)? Then there is the question of resources. Once a decision has been taken to move to more sustainable, alternative forms of energy, such as wind and solar, how do you reprioritise the programme quickly to fill the gap in the short term? We asked two industry experts for their thoughts.

Post Fukushima governments are reassessing their nuclear strategy.





REPRIORITISE QUICKLY TO KEEP THE LIGHTS ON



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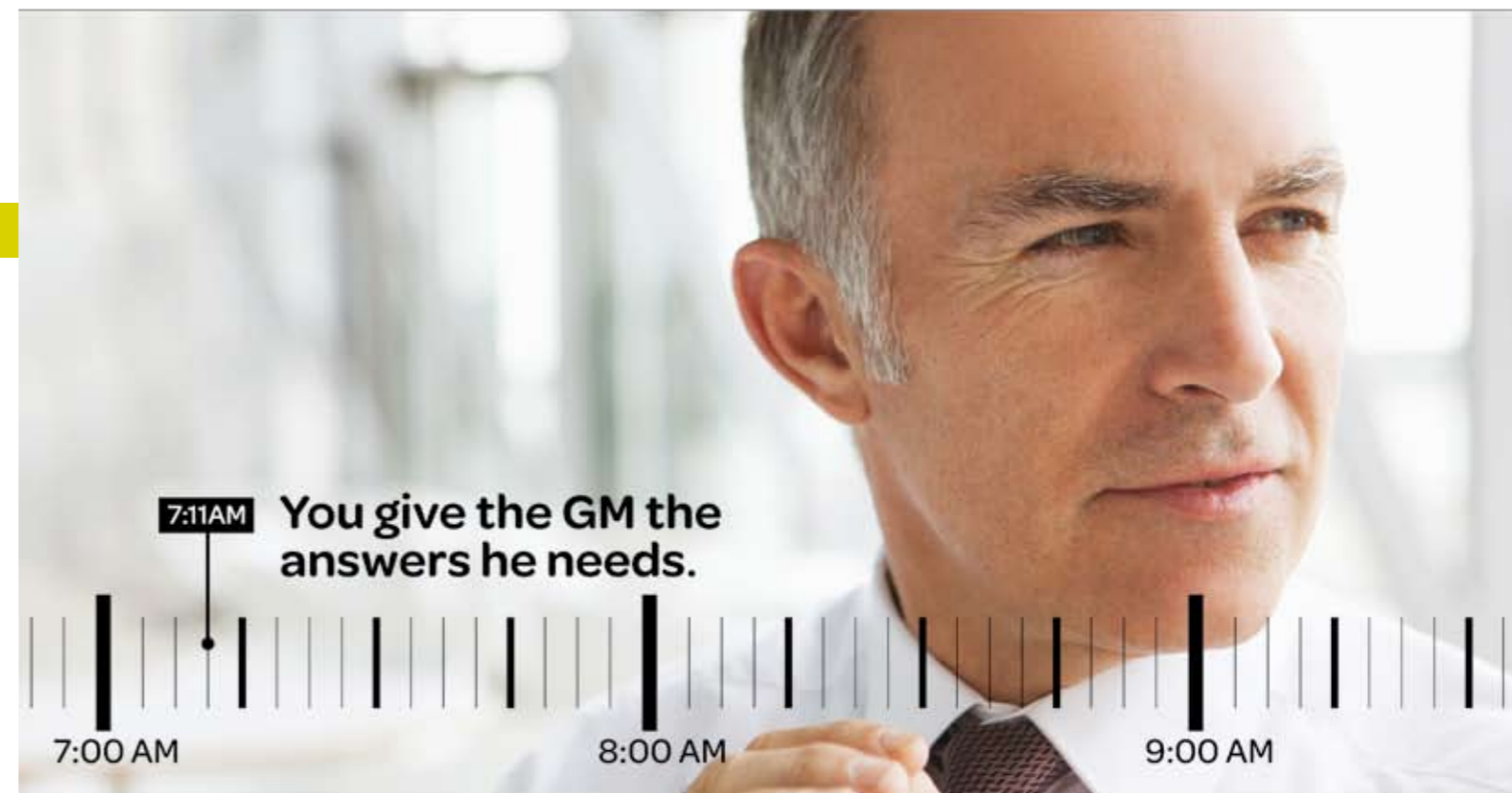
It isn't about project management. It's about programme management. A lot of people think programme management is about optimising delivery but it's much bigger than that. From strategy and asset management through to delivery, Programme Management must answer three fundamental questions: how to prioritise, how to ensure value, and how to realise?  
In terms of Fukushima, how to prioritise is the most immediately relevant.  
Countries across Europe have energy strategies that extend beyond 20 years. The prioritisation has previously been done with nuclear as a fundamental

part of it, then all of a sudden public and political support changes and you have to reprioritise with nuclear not there any more.  
This changes the shape of the programme in a dramatic way.  
The first issue to contend with is how to reprioritise in the short term to keep the power supply going and keep the fundamentals of society intact, eg, how do you keep the lights on?  
The next issue is keeping the public onboard. It may be a popular decision to stop nuclear but it may be an unpopular decision to keep fossil fuel plants running, build new gas power stations quickly to fill the immediate void and import resources or supplies from neighbouring countries.  
So really the biggest issue isn't about making the decision, it's about managing the economic and environmental consequences while keeping the public onside, and the critical thing here is to buy yourself time.

If you're putting a long-term energy plan in place you will have already looked at a range of options – so when one of the fundamentals changes, you need to revisit that plan and very quickly reprioritise.  
This doesn't alter the required outcome – a secure, sustainable and economically viable power supply – what it changes is the dynamics of the decision-making process. Suddenly you're forced to reconsider other options and look at what can be done in the short term to fill the gap and what investments are needed in the medium term to reduce consumption and move away from fossil fuels or over reliance on imports.  
Energy sector programmes can be highly volatile with lots of 'churn' so changing direction quickly when things happen unexpectedly is not uncommon. Energy companies face a lot of challenges even once the big strategic decisions have been made.  
Events like Fukushima represent a change in investment strategy that is not all that different from what happens in delivery on a day-to-day basis.

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