What Is Portfolio Management, and Why Should IT Care?

By Steve Force

How does a company know if they're working on the right IT projects? How can they tell? Why do managers often make questionable IT investment decisions? Why don't they know what technology is worth to the business?

According to a January 2002 META Group report:

- Eighty-nine percent of companies are flying blind with virtually no metrics except for financial ones.
- Eighty-four percent of companies don't do business cases for their IT projects or do them only on select, key projects.
- Eighty-four percent of companies are unable to adjust and align their budgets with business needs more than once or twice a year.

These are pretty sobering statistics. Such numbers would improve with even the most rudimentary portfolio management methodology in place.

Organizations with portfolio management methodologies in place have better, more relevant, actionable information. It might seem like an abstract, esoteric topic, but portfolio management is a topic all forward-thinking IT practitioners should embrace. It's a tool that:

- Provides an over-arching view of IT projects across the enterprise
- Facilitates alignment of IT with corporate strategy
- Is not used to implement or maintain.

We all know the importance of linking technology to business drivers. However, many IT practitioners still use "IT speak" when talking to the business side. Yet, it's best to use a language they truly understand: money, investment and risk.

Although the IT staff isn't alone in failing to quantify their projects and programs (other business units and executives are equally guilty), that's no excuse. If IT understands the value of quantifying their projects or programs, and performs the due diligence necessary to accurately value it, then IT is much closer to providing true, measurable business value.

Now, how does this apply to portfolio management? Simply put, portfolio management takes an objective view of all investments, including IT, to ensure that such investments are made wisely and in keeping with the overall strategy. It gives the organization a method to align IT with strategic goals by prioritizing IT projects in the same manner as other elements of a financial portfolio.

Evaluating Investments

Ideally, business and IT management weigh the merits and risks of all program or project proposals in light of strategic objectives. The IT portfolio should be managed exactly like any other financial portfolio. The costs and benefits of riskier initiatives (new programs) must be weighed against more conservative ones (ongoing or maintenance projects). During the planning process, management decides how they want their business to grow and all initiatives must support this growth. IT portfolio management greatly helps management track their IT investment against their stated objectives, which leads to more informed decisions on investment levels.

Consider an example. Your business sunk $400,000 into an inventory system that was expected to cost $500,000 but has yet to deliver on its promises. In hindsight, you determine that all that money would have been better spent on an ERP system. With $100,000 remaining in the budget, however, you decide not to scrap the inventory system and start fresh with more modern, flexible ERP functionality. Instead, you spend that money on the underperforming inventory system and hope for the best.

This might seem like a big mistake, but it's quite common. If the information available to management is either inaccurate or incomplete, or the business omits the due diligence necessary to evaluate all its options, then how would management know otherwise?

Having IT portfolio management in place can help the CIO make more rational financial decisions. However, as with most ideas in IT, portfolio management sounds great in concept but is tough in execution. Such a system generates valuable discipline and organizational clarity, but does involve political and other costs.

A Common Problem

Many companies lack defined processes for reviewing and vetting project proposals or even knowing what all is occurring throughout the company. Projects come recommended by senior management within the interested business unit without regard to the total business impact. Often, these companies launch many more projects than they have the resources for. In this kind of environment, dubious or limited-value projects can squeeze out good projects.

This should be a major concern to responsible corporate management. Today, CEOs are under real pressure to invest only in projects that return clear value. If the CIO doesn't manage their IT project portfolio, they probably don't have a clear picture and are at risk of losing control or failing to win support for strategic projects. This is a large percentage of companies. According to a recent AMR Research report, as many as 75 percent of IT organizations have little oversight over their project portfolios and employ non-repeatable planning processes.

Some companies are quite successful despite these problems. Nevertheless, let's examine some potential best practices for implementing and maintaining effective portfolio management.

Think about how IT project investments are managed in your company. Do any of these scenarios sound familiar?

- Megasize projects, which may or may not match strategic objectives, are

awarded to business units headed by the most visible (or vocal) executives.
- Redundant projects abound.
- Weak IT governance structures mean that business executives don't have a clear vision of what they're approving (or even why).
- IT management often sells projects that should be generated and sold by business unit heads.
- Management does not build solid, defensible business cases for IT projects or doesn't create them at all.

Portfolio Management Benefits

An effective portfolio management program can turn all that around. It can help:

- Maximize the value of IT investments while minimizing risks
- Improve communication between IT and business management
- Encourage business unit management to consider how their projects impact the complete business
- Require (or strongly suggest) business unit managers to take project ownership
- Reduce the number of redundant projects and make it easier to cancel projects
- Facilitate scheduling of limited resources and development of effective IT governance policies
- Ease identification and evaluation of all IT projects and programs based on risks and rewards
- Generate a complete, quantified, accurate, and independent view of your business's projects and programs (existing and planned)
- Measure actual results to verify improvement plans.

When implementing portfolio management, consider these objectives:

- Identify all your current projects and programs
- Rank these by risk
- Rank by investment
- Rank by business value impact
- Look at the mix and better understand the true impact and risks/rewards of the current IT portfolio
- Develop and implement a methodology and process to rigorously evaluate and accurately rank all new projects or program proposals as they arise
- Improve IT governance.

Best Practices

Implementing and maintaining portfolio management is challenging but not impossible, if you follow these best practices:

- Keep it simple
- Be willing to cancel projects not meeting strategic objectives
- Track all proposed investments, even those not chosen for implementation
- Ensure that your IT staff members join key functional leadership teams and have leadership roles on the business-related tasks important to those teams
- Establish and follow a clearly articulated investment prioritization process
- Involve senior management in supporting portfolio management as a key component of corporate strategy and ensure corporate buy-in and compliance.

Here are the steps you should take in creating and managing an IT investment portfolio:

- **Inventory current projects:** It's essential to identify and inventory current and planned projects. Gather as much information as possible.
- **Match projects to strategic objectives:** IT and business unit leaders should compile a list of projects during normal business planning cycles. They must support the business value of these projects by preparing and defending business cases that address benefits, projected returns, Net Present Value (NPV), costs and risks. Business decision-makers can use this information to make decisions. They can separate high-impact projects from projects with limited or questionable value.
- **Rank and categorize projects:** Even after the project selection process, there still might be more projects than can be adequately funded or supported. These projects can be tabled or scheduled for another budget cycle.
- **Actively manage the IT portfolio:** Frequently revisit your portfolio analysis. Otherwise, you won't achieve the benefits of this approach and it could fail due to lack of support.

Although it's important to correctly approach portfolio management implementation, it needn't be unduly complicated, expensive, or politically messy. Seek out proper consultative advice and support early, leveraging their experience and expertise to avoid or mitigate any mistakes. Also, make sure to choose the right tool, which could initially be as simple as a spreadsheet. Tool complexity and sophistication can increase as the process matures, if necessary.

Summary

IT portfolio management can bring measurable benefits to any company willing to make the effort to implement it. It need not be overly complex, and it's not always necessary to implement sophisticated software to support it. However, you should get proper advice from experienced sources before implementing portfolio management. This helps ensure success without complicating the implementation. **bij**

About the Author

Steve Force is a principal at Detroit, MI-based Progeto, Inc. He has more than 25 years of global IT, project management, and business management consulting experience. For three years, he was a managing consultant for Microsoft in Germany. Steve has an MBA, is a certified Project Management Professional (PMP) and is currently working on Certified Management Consultant (CMC) certification. Steve has published more than 25 articles.
e-Mail: sforce@progeto.com
Website: www.progeto.com

business integration journal takeaways

BUSINESS

- Technology projects are part of a company's overall investment portfolio and should be evaluated as such.
- Knowing the value of a technology project requires understanding the financial risks and rewards of the project.
- IT projects should be frequently ranked and categorized as part of a portfolio management process. The same applies to all projects that require a business to invest resources.

TECHNOLOGY

- Effective IT portfolio management requires performing basic "due diligence" prior to project implementation.
- Portfolio management helps companies select the right technologies and projects based on strategic priorities, not just technical functionality. Companies are better able to evaluate new technologies, such as Web services, and understand how these initiatives will impact other business areas.