

*The Seven Habits of Highly Effective Portfolio Management
Implementations (2005 Edition)
Proven Best Practices That Work*

A UMT White Paper, November 2005

Forward

Originally published in 2003, this white paper on portfolio management has stood the test of time and is still relevant in all 7 best practice areas. Although the 7 best practices remain the same, the field of portfolio management has evolved substantially. To follow are some key questions that have been answered in the last few years:

- ***Where should I start: Process or Tools?*** – Today, many organizations have recognized that developing a governance process is as important as identifying the correct tool to fit corporate needs (See best practice 3 and 4). At the intersection of process and tool is the workflow. Experience over the last 3 years has shown that the workflow is a valuable component in supporting the development of a practical, usable and manageable governance process. Part of a successful implementation includes configuring the workflow within the software tool to match the processes best suited for the existing corporate environment. From demand management through portfolio selection, execution tracking to benefits realization, the place to start is with both well defined processes and a supporting tool. The process and the tool will mature over time as organizational acceptance of both increases.
- ***For IT portfolios, what is more important: APM or PPM?*** – As the industry matures, the criticality and advantage of analyzing both applications (APM) and projects (PPM) through a portfolio lens is clear. To maximize the return from IT investment you must examine and manage the synergies between application and project portfolios. For example, in order to understand what new projects to invest in, it is essential to understand what existing applications you have, and what areas of the business need further support. A holistic view of both APM and PPM can help uncover redundancies, address gaps, and reduce waste within your IT portfolio. Calculating Total Cost of Ownership (TCO), and Annual Cost of Ownership (ACO) is not feasible without understanding this critical relationship between the application and project portfolio.
- ***Which is the right level to start: Project or Portfolio?*** – The reality is that there is a fine balance between the project detail and the portfolio perspective required in each organization. Portfolio management is critical for decision making, governance, and to ensure your company's business objectives are being supported by the right set of projects. Project management is critical to ensure that budget dollars and resource usage is accurate and each project is delivered on time. When implementing a portfolio solution, both are required to ensure the right set of projects are selected and that they are delivered on time, and within budget and scope.
- ***Has portfolio management become more widely accepted as a practice in the last 3 years?*** – Absolutely. Software tools have evolved, methodologies have been further refined, and the benefits of portfolio management have become more clear. We are seeing the discipline more frequently mandated in Global 2000 organizations to rationally manage project and application portfolios. Because vendors and organizations are more aware of specific needs that portfolio management satisfies, many of the 7 best practices are easier to implement, leading to more successful

portfolio management implementations. One indicator that supports this increased awareness is that CEOs and Heads of Divisions are taking an active role during key presentations and deliverables (1st best practice) related to portfolio management.

- ***Are there financial benefits to implementing portfolio management?*** – At the 2005 Gartner PPM show, Gartner analysts specified that companies implementing portfolio management processes and tools are seeing 10- 25 percent cost reductions, freeing up capital for new investment. Common sources of financial benefit include:
 - Cost avoidance from stopping the funding of high risk, poorly aligned, low projected return projects. These types of avoidable projects are generally 5-20% of IT discretionary budgets prior to alignment and optimization.
 - Increase of 5-40% in projected return (IRR, NPV, EBIT) of the project portfolio for the same budget by funding high value projects and eliminating high cost, low return projects.
 - Improvement in resource utilization of 5-15% due to more effective resource planning and scheduling optimization.

One example of financial benefits came from Paul Bateman of AXA Financial, who indicated a savings of \$5-10 million on a budget of \$50 million in the first year of their portfolio management implementation.¹

Each response to the key questions above is just the tip of the iceberg in the wealth of knowledge that is being developed about portfolio management implementations. The 7 best practices are continuously utilized for implementations across a wide variety of companies within different industries and each has lessons learned that can be applied to many diverse environments. To learn more on the topics above, request your complimentary copies of additional white papers from UMT at www.umat.com. The rest of this paper includes the 7 best practices of portfolio management.

50% of Global 2000 companies adopted some form of Portfolio Management in 2004². Why will some implementations drive portfolio value up by as much as 30% while other attempts become just another failed project?

PORTFOLIO MANAGEMENT ON THE RISE

Portfolio management has become a mainstream practice with over 50% of Global 2000 companies adopting Portfolio Management in 2004¹. Three forces continue to drive the need for a sound methodology and proven tools for portfolio management:

- **Increased need for compliance and accountability:** With Sarbanes-Oxley and similar legislation, executives can no longer claim, “I was not aware”. Portfolio management provides the rationale for large project investments and the transparency and accountability to know where investments are flowing in an organization.
- **Increased awareness of technology’s role in meeting a company’s business objectives:** Does IT Matter? While the 2003 HBR issue argued that “IT Doesn’t Matter”, whether it does or doesn’t, it is clear that projects MUST be aligned with business strategy. This problem is fundamental since recent industry studies have shown that 40 percent of capital investments are wasted mainly due to lack of

¹ CIO Insight Magazine, “The Efficient Frontier: AXA Financial Inc”, June 1, 2004

² META Group 2003

alignment with business strategy.

- **Changing budgets (lower or higher) require thoughtful reallocation:** “The essence of reality is scarcity” as companies were reminded in the recent economic downturn. Less budget, fewer resources, but business must go on.

Yet most organizations will adopt simplistic solutions based on input data and “nice charts” or will view portfolio management as a roll up of projects into an umbrella group. It’s just not that easy. Why do some implementations drive portfolio value up by as much as 30% while other attempts become just another failed project?

The following are 7 proven Best Practices that were consistently used in successful PPM rollouts across over 100 implementations by UMT. Any organization thinking of PPM should strongly consider using these while developing a PPM governance framework.

7 BEST PRACTICES

1. Start at the top with senior management buy-in.
2. Don’t overwhelm the organization with a big bang approach.
3. Develop a governance process.
4. Use proven PPM tools.
5. Develop a common currency to evaluate projects based on contribution to business objectives.
6. Optimize the portfolio against constraints to get the biggest bang for the buck.
7. Don’t assume things will be ok- Monitor portfolio execution and benefits realization.

1. Start at the top with senior management buy- in

With continuing pressures to do more with less, senior management buy-in to a structured PPM process is essential to create awareness, provide support, build consensus about organizational goals, and to motivate stakeholders at all levels to participate effectively. Specifically this enables:

- a) **Focus on business objectives from the beginning** - Engaging business executives at the onset of the PPM process, starting with portfolio selection, ensures that business objectives are clarified early in the planning cycle. As a result, consensus can be built between the management team over projects that support these goals, and “squeaky wheel” (those that shout the loudest) priorities are minimized.
- b) **Early application of the PPM framework to critical business needs** - The importance of buy-in at the senior level is especially critical in PPM governance. Early in the process, senior management can be educated in ways to engage and apply PPM during critical junctures as external or internal events necessitate investment level and direction modifications.
- c) **Establishment of communication forums** - Senior executive buy-in at this early stage also creates a defined forum for escalation of issues pertaining to portfolio delivery, and provides executives with a tangible stake in ensuring the successful implementation of the portfolio.

2. Don’t overwhelm the organization with a big bang approach

Each organization is different in terms of its level of maturity and ability to handle change. A phased approach should be used, based on the company's internal PPM maturity. Specifically organizations should:

- a) **Identify PPM focus areas through a gap analysis** – Maximize the chances of success with a gap analysis before applying any framework. The gap analysis provides an understanding of your current capability maturity vs. industry best practices. Areas of greatest need are identified and the customized target PPM environment is established for your organization. There are typically many valuable existing PPM processes that should be built upon, not discarded!
- b) **Communicate within the organization using a proof of concept** - Conduct a proof of concept, either in parallel to existing budgeting and planning activities or well before yearly planning. In many cases, participants in the budgeting and planning process require tangible views of the value that PPM provides. A Proof of Concept is an excellent way to facilitate the communication of that value using data that participants relate to and with terminology that is specific to their needs.
- c) **Rollout PPM with less than perfect information.** There is never a good time to initiate a change process. Information is never perfect. You will always find opinions from those not interested in increased transparency that PPM may "not be the right approach" because of less than perfect data or an insufficient methodology. In fact, PPM is a process that engenders systemic and organizational thinking and has self correcting mechanisms that enhance results over time. Whatever approach and tools are selected, NEVER:

- Go too long without showing results! A perception that this approach is "time consuming" is fatal.
- Run PPM in a lab environment without active business management support and participation. A perception that PPM is only theoretical will cause a disconnect with your business client.

3. Develop a Governance process

Governance structures to approve projects ensure consistent processes are adopted throughout the organization. Governance structures should be tailored to the organizational environment.

Dr. Howard Rubin from the Meta Group says that: **"Portfolio Management without Governance is an empty concept"**. The need for a structured framework that supports decision making is absolutely essential.

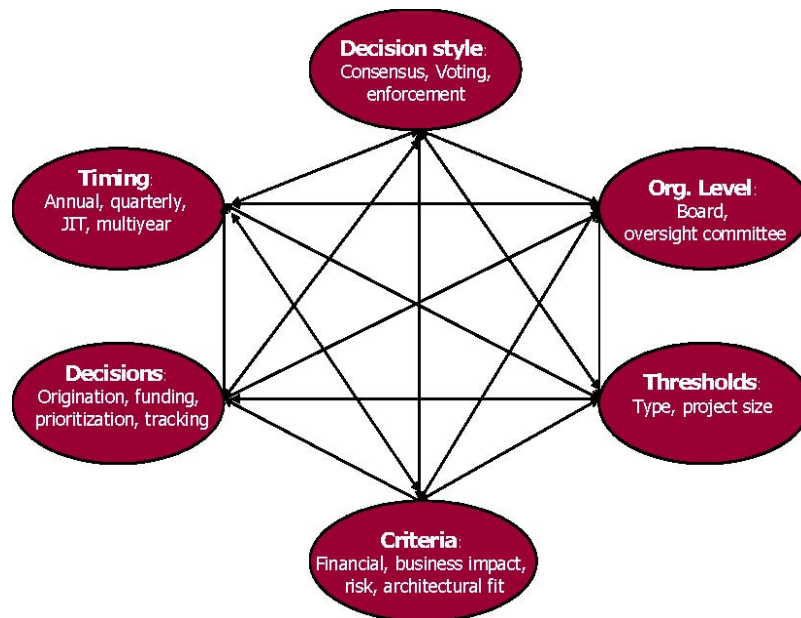
Portfolio Management implementations without a strong governance structure will struggle to be accepted and are unlikely to yield expected results. So what are the critical factors to consider when establishing a governance structure? There are 6 pillars of governance.

1. *Timing* - When are decisions made? Annually, quarterly, "just-in-time" or over multiple years?
2. *Decision Style* - How is consensus achieved? In groups, by voting? Or through a dictatorship?
3. *Organizational Level*³: Who is involved in the decisions? The Board? Multifunctional steering committee? PMO?
4. *Thresholds* - What are thresholds defined by? Budgets, full time equivalents, cross-business unit projects?
5. *Decision Criteria* - What other criteria affect decision-making? Financial impact, strategic impact,

³ "Portfolio Management: How to Do It Right", CIO Magazine, May 1, 2003 Each of these areas must be understood to develop a governance structure tailored to the organizational environment.

risk levels, architectural fit?

6. *Decisions* - How do projects originate and get prioritized? How do they get funded? What criteria are used for project cancellation? Who tracks their implementation?



It's important not to underestimate the resistance to a newly standardized governance structure that pools resource control to match the scope of a project portfolio. Start this transformation early, and use a phased approach that minimizes disruption to existing project investments.

4. Use proven PPM tools

Portfolio Management tools are mandatory. Project Portfolio Management tools are catching up to support the developing needs of the marketplace and are an essential part of any PPM implementation. They can determine failure or success in the PPM rollout!

As new vendors enter the growing market of Portfolio Management, software can be found in many forms, the bulk of which offer nothing more than project repositories with manual prioritization and nice graphical interfaces. To make multimillion-dollar project investment decisions, you really need a robust decision support tool that can help:

- Prioritize projects by their mathematically derived business value.
- Optimize against budget and resource constraints to select the best portfolio.
- Conduct "What-If" analysis using advanced portfolio intelligence.
- Drill down into reasons why your portfolio is not on the Efficient Frontier.
- Enable communication and sharing.
- Provide graphics and representations that are easy to understand and modify to reflect the ongoing changes in the portfolio.
- Enforce and expedite a scalable governance (gate-keeping) process through workflow management.

The complex tradeoffs of value, cost, resources, and risk require software that can mathematically weight, balance, and optimize a portfolio in a seamless manner. In selecting PPM tools, organizations should look not only at the breadth of functionality the tools offer, but also at the vendor's experience in PPM. With the evolving market for PPM tools and solutions, vendors who have the most implementation experience are the ones who are likely to have the most sophisticated and scalable

solutions.

5. Develop a common currency to evaluate projects based on contribution to business objectives

Once you have an inventory of proposed projects to consider, you must have a system to assign relative value to them. How do you compare a proposed CRM project to a proposed storage area network? It's difficult if not impossible without a way to quantify previously qualitative beliefs, opinions, assumptions, and incomparable metrics. Without a rational system of quantitative comparison, decisions get made emotionally, by the most politically powerful or persuasive.

Yet, quantitative financial gauges used alone are not enough, as they are lagging indicators that often fail to properly capture short-term benefits of certain business initiatives. Rather, translate company strategy into 7-10 business drivers, and prioritize the drivers using conjoint analysis (pair wise comparison analysis) to determine their weighted importance. Next, determine the impact of proposed projects on business objectives, and mathematically derive a strategic currency from which one project can be compared to another.

Aligning projects to business strategy creates a visible link between the scope of the project and its intended benefits. It also allows all projects to be compared to each other based on a new system, a common currency.

Prioritization of the portfolio should be based on the degree to which each project supports organizational goals (strategic value). However, it is unlikely that the optimum project mix will consist simply of those projects that rank highest in this list. In order to optimize a portfolio, organizations should look to maximize the total strategic value their project portfolio can yield in relation to its constraints on resources.

6. Optimize the Portfolio against constraints to get the biggest bang for the buck!

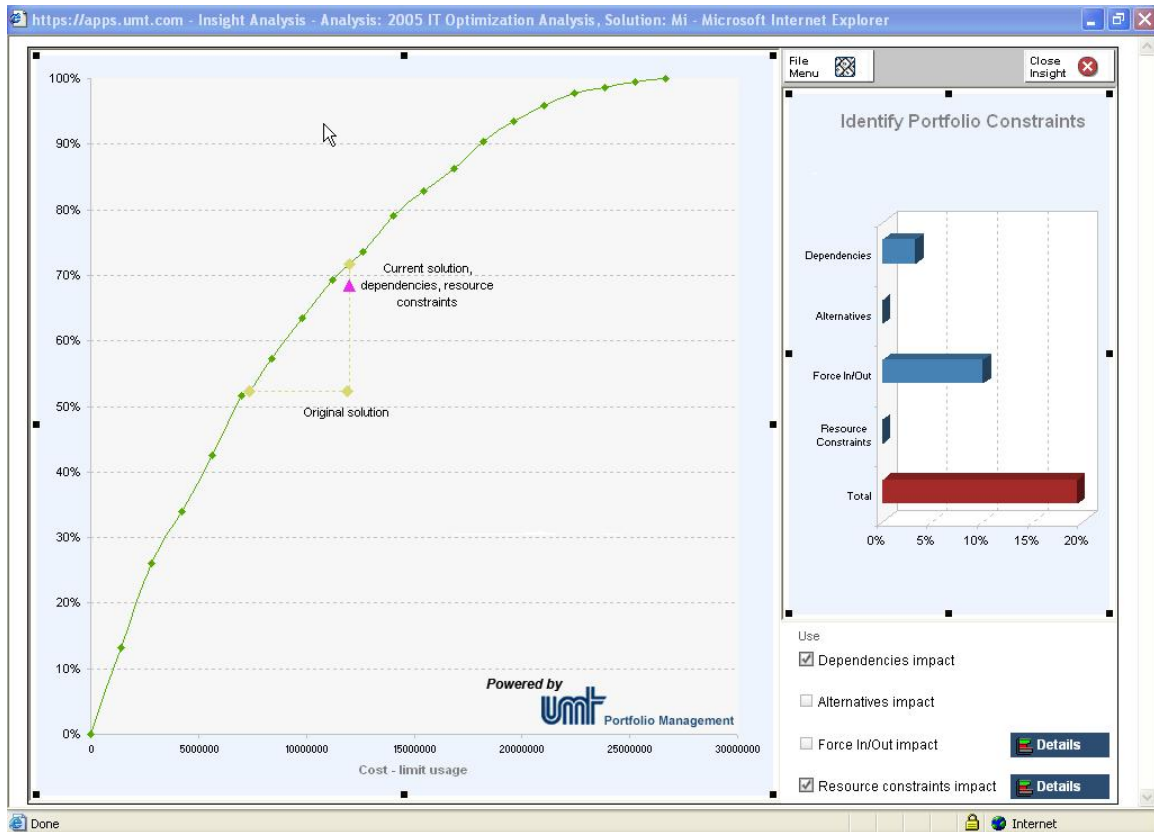
Scarcity is the essence of reality - you simply do not have the budget, skilled resources, technology, or organizational ability to undertake all project requests. So how do you select the best portfolio of projects given these constraints? You could rank order them based on their Strategic Value ("common currency" defined above) and select them in order until you run out of funds. Yet, in most cases there are multiple constraints including limited competencies, project dependencies, mandatory projects and more. In order to optimize a portfolio, organizations should look to maximize the total strategic value their project portfolio can yield in relation to all constraints - and this requires mathematical optimization.

Optimization is best seen through the use of an "Efficient Frontier" with which you can benchmark any proposed portfolio against the best you could possibly do given your constraints. The Efficient Frontier tool seamlessly looks across all of the possible portfolios and gives you the confidence to know where you are in comparison to the optimal solution, and what is holding you back from reaching it.

Moving to a fact-based decision model which enables identification of tradeoffs between more and less valuable portfolio components leads to responsible decision making and maximum support of the company's business direction.

The Efficient Frontier

The company can select a portfolio of projects on or under the Efficient Frontier. Portfolios along the curve are said to be efficient because the company is getting the maximum value from the available budget. Points under the Efficient Frontier curve represent inefficient portfolios.



7. Don't assume things will be ok; Monitor Portfolio execution and benefits realization

Monitoring investments after they have been launched is one of the most critical parts of ensuring a successful PPM process. Portfolio agility, or the ability to stay current with your investment status and respond to changes, is a key driving force. With stricter audit and compliance rules, portfolio transparency is not only a luxury but an essential part of awareness that leads to corrective actions. Management has the ability to ensure that funding turns into the desired business results with an “early warning system”, using it to develop corrective measures and responses to potential issues.

Depending on the size of the portfolio, the monitoring and tracking of progress may be most effectively done through a Program Management Office (PMO) and PPM dashboard software. The responsibility of this function is to foster the effective delivery of projects by assessing key indicators such as delivery to agreed milestones, mitigation of risks, resolution of issues, dependencies, adherence to change control

procedures and escalation of issues to senior management.

Dashboard or scorecard reporting is a practical way for PMO functions to provide senior management with key information. These reports highlight to executives whether their projects are progressing to plan or whether they need help, and give executives the opportunity to address any issues before they threaten to derail the project.

SUMMARY

Using the best practices in “The Seven Habits of Highly Effective Portfolio Management Implementations” will help you navigate the maze of IT Portfolio Management pitfalls no matter which methodology or toolset you choose. These are proven approaches to prevent problems that have hampered others, and by using these you will fundamentally increase your chance of success in rolling out IT Portfolio Management. For further information about any of the above mentioned best practices visit our website at www.umat.com or call our office at 212-965-0550 (US) +44(0)20-7247-8568 (UK).

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