

# IT Portfolio Management ... 15+ Years Later

**Ocean State PMI**

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# Welcome OSPMI!

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It was 2002. To generate interest in PMOffice, its Project Portfolio Management solution, software vendor Systemcorp felt it needed to educate the marketplace.

META Group (at the time, a key Gartner Group competitor) had established a team of consultants in 1999 to develop an IT Portfolio Management practice. The conceptual foundation for the practice was that the IT organization should not be treated as a cost center, but as a value center. In fact, the “IT Portfolio Management” label came from applying a stock market investing analogy to the treatment of an organization's IT assets.

Systemcorp paid to have me deliver an IT Portfolio Management presentation to PMI groups across the US.

Let's discuss:

- The original META Group definition of IT Portfolio Management in 2002.
- How has the definition evolved?
- What parts of it can we say have - and have not - been adopted in the marketplace?
- How well has the definition stood the test of time?
- How does it connect to project/program management?

# How To Proceed

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## **IT Portfolio Management Overview**

## **Review Key Components**



- *How has the definition evolved?*
- *What parts of it have - and have not - been adopted in the marketplace?*
- *How does it connect to project / program management?*

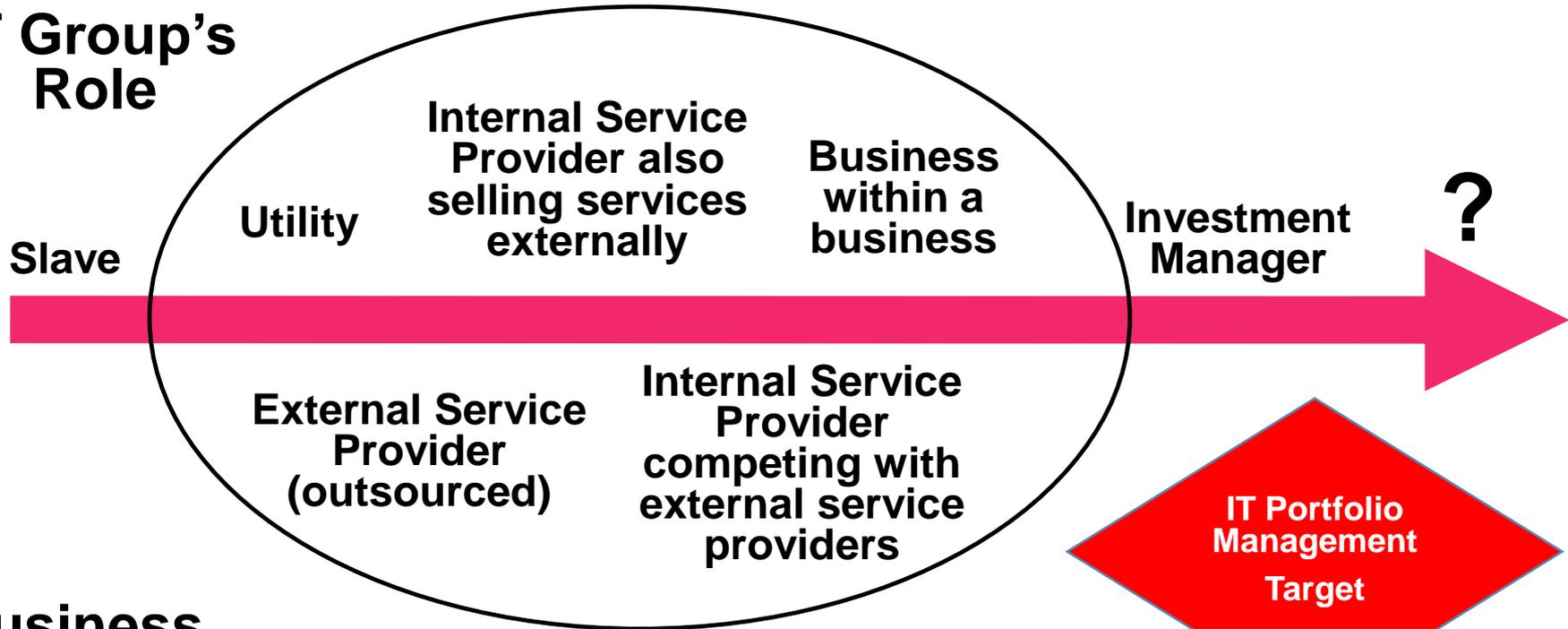
# Profile of the 2002 Environment

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- The IT group was treated as an expense – a necessary cost of doing business. And there was a need to continuously reduce IT cost.
- We were commonly asked for benchmarking data: IT cost as a percentage of revenue by industry.
- The business value conversation focused on cost and service levels.
- The business groups did not step up enough to their significant responsibilities (for example: in developing requirements, in managing scope creep, in testing, in coordinating changes to business processes, etc.).
- Often, when business value from IT was discussed, the responsibility for generating value it was placed on the IT group.
- Projects were selected with little consideration for the “big picture” – they are added to the projects portfolio as requested by the business groups.
- The implementation of project results was managed, but value was not.
- The IT group viewed itself as technologists, not as business people.
- There was a lack of innovation – to determine ways to use data and technology to improve competitiveness.

# What Is IT's Role in Company?

**IT Group's Role**



**Business Group's Role**



# Traction in the Industry Periodicals

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- August 15, 1994 Issue of ComputerWorld - “S.C. Johnson, A portfolio-value approach”  
*Rule #1 for CIOs: Talk in a language business people understand. What's more businesslike than managing a portfolio of investments?*
- Oct. 1, 2001 Issue of CIO Magazine - “Do The MATH”  
*If you want business credibility, you need to use business tools. Project portfolio management can help align IT, manage value and get you a seat at the big table.*
- March 18, 2002 Issue of ComputerWorld - “Time for Portfolio Management?”  
*Some experts predict that IT budgets as we know them won't ever grow dramatically, regardless of economic conditions. The reason: the gaining popularity of project portfolio management, a 50-year-old business concept that's a fairly new idea in IT.*
- January 29, 2002 Issue of CFO Magazine – “What CFOs Really Think about Technology”  
*While there's not a company out there that doesn't spend a large amount of capital on technology, the prevailing sentiment among CFOs seems to be that IT is a competitive advantage. Or at least, that's the takeaway from a study conducted by CFO Research Services and Getronics. In the survey of 288 senior finance executives in the United States and Europe, **about half of the respondents said technology is vital to business growth.** Another 46 percent believe IT spending enables business process improvement. Only 5 percent said technology is purely a tactical tool, which, if you buy into the baseball analogy, would seem to be the right answer.*
- January 25, 2002 Issue of CIO Magazine - “Managing IT Risk With Portfolio Management Thinking”  
*Minimizing risk and maximizing reward is at the very core of any investment, whether financial or technological. For technology, IT has faced a steep uphill struggle balancing these two forces. Historically, IT has done a poor job quantifying both the risk and return on technology investment in financial terms and, as a result, has not been able to convincingly demonstrate the value to the organization. As such, **organizations have tended to think of technology investments as delivering little bottom-line value to the company.***
- August 5, 2002 Issue of ComputerWorld - “IT Investment Model Wins Converts”  
*A growing number of businesses – led by blue-chip companies such as J.P. Morgan Chase & Co., Johnson & Johnson and Metropolitan Life Insurance Co. – are evaluating their IT investments with a more discerning eye by treating technology assets and projects more like financial portfolios.*

# IT Portfolio Management Essentials

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- **Assets & Capabilities**

- Manage the IT assets and business assets together; focus on business capabilities made up of the business and IT assets
- Also apply portfolio perspectives (e.g. applications portfolio, infrastructure portfolio)
- Learn to include the “softer” assets (knowledge, processes, innovation, etc.).
- There are no IT decisions, only business decisions, and the IT assets are critical to the business’ competitive success.
- The IT organization oversees the IT assets.
- Adopt Enterprise Architecture.

- **Adopt Investment Thinking**

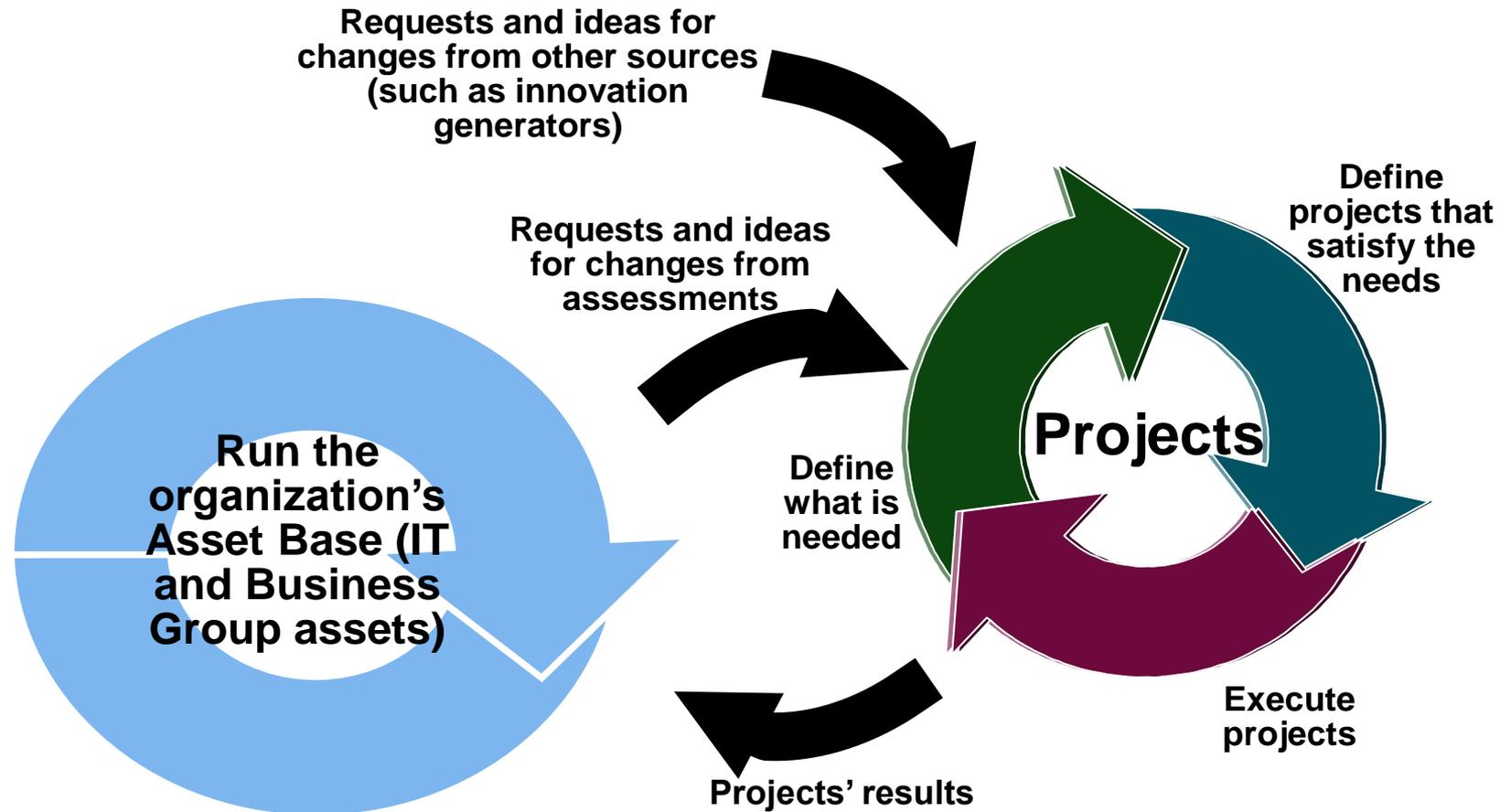
- Value
- Risk
- Cost

- **Projects**

- Project Management is the “wrapper” we use when making changes to the assets.
- Make Value Management part of the project.
- Make sure to apply the projects portfolio perspective.

# IT Portfolio Management in Operation

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# ITPfM Adoption in 2002

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- Most interest in IT Portfolio Management came from IT leadership, not the business leadership
  - Perhaps because the IT leaders saw this as a way to address some of their frustrations (for example, lack of business collaboration, lack of business direction, and cost-reduction pressures).
  - Perhaps because IT leaders saw this as a way to enhance their status in the organization.
- The industry was in an early stage of adoption
  - Proceeding cautiously.
  - Not sure where to start.
  - Taking on the more recognizable parts of IT Portfolio Management.
  - Still a long way to go to get to a basic level of IT Portfolio Management.
- Most client requests were related to familiar components
  - Managing the projects portfolio better.
  - Managing the IT budget better – that is, a more flexible budgeting process using investment categories (such as: run-the-business, grow-the-business, transform-the-business).

# Let's Review

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- The 2002 business environment
- Role of IT
- Role of business
- ITPfM definition
- ITPfM adoption

- *How has the definition evolved?*
- *What parts of it have - and have not - been adopted in the marketplace?*
- *How does it connect to project / program management?*

# Assets Make the Business “Engine”

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- Applications
- Data
- Technical Infrastructure
- Human Capital
- Knowledge
- Processes
- Innovation
- Relationships
- Buildings
- etc.

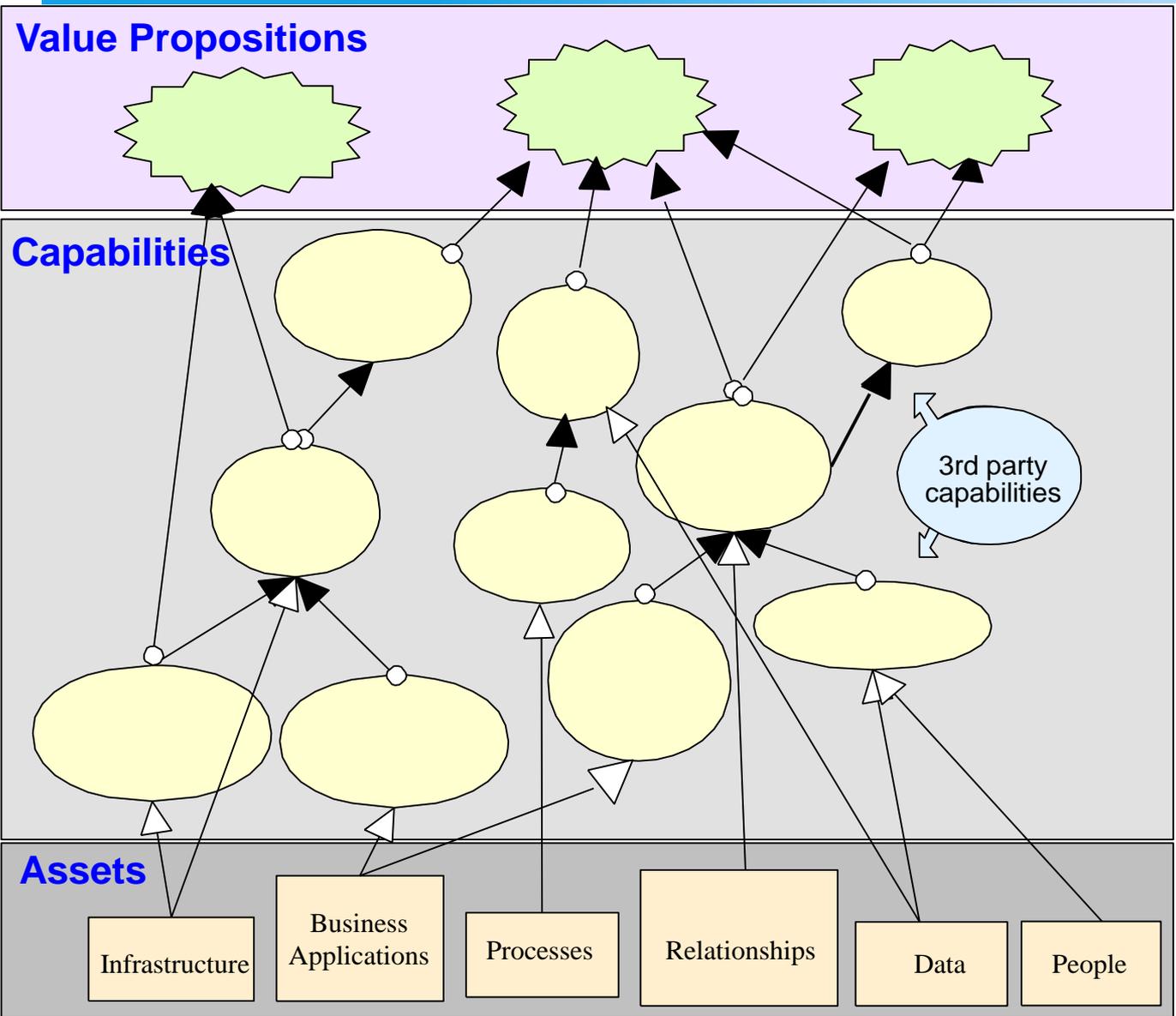
# IT Portfolio Management Analogy

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We found that the investment portfolio management analogy works well.

- It was robust, and didn't break down as we worked out the details.
- It gave the business and IT groups a familiar set of concepts, language, and roles.
- It promoted the right kind of thinking: the need to balance cost, value, and risk.

# Value: The Strategic Capabilities Network



## Value Propositions

**VALUE PROPOSITIONS**  
Describes the positioning of the company. These are statements of the business benefits of the capabilities to specific stakeholders.

## Capabilities

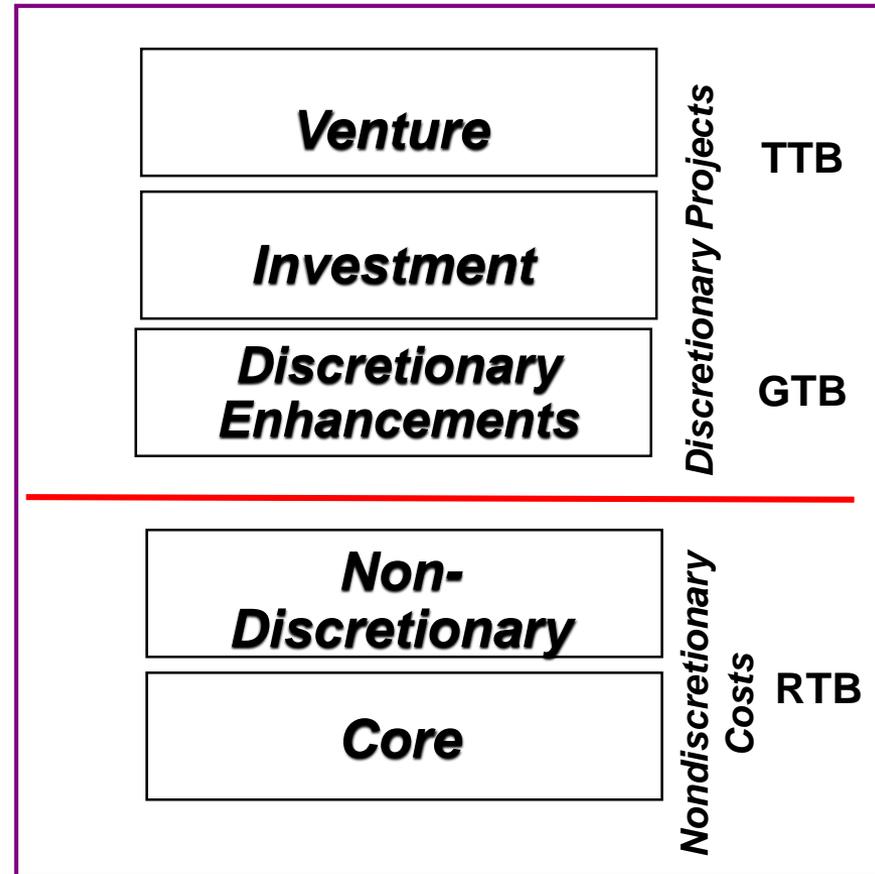
**CAPABILITIES**  
What capabilities must the company assemble to support the business' value propositions? What must the company be able to do?

## Assets

**ASSETS**  
What assets does the organization need to be able to provide key capabilities?

# Costs & Risk

- ▶ Position the CIO/CFO as a “fund manager” setting investment objectives.
- ▶ Position IT managers as portfolio and product managers.
- ▶ Link all through an investment management discipline - continuously manage the investment *yield* from a risk-return vantage point.
- ▶ Continuously drive down RTB costs.



RTB = Run the Business

GTB = Grow the Business

TTB = Transform the Business

# Managing the Assets Portfolio

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- The organization has only one portfolio of assets
  - break down the barriers between the users' assets and the IT assets.
- Continuously drive down RTB costs.
- Continuously improve performance.
- Balance:
  - Optimizing in isolation each asset category (people, processes, data, applications, knowledge, etc.)
  - Integrate and optimize the “team” of assets using a capabilities perspective.

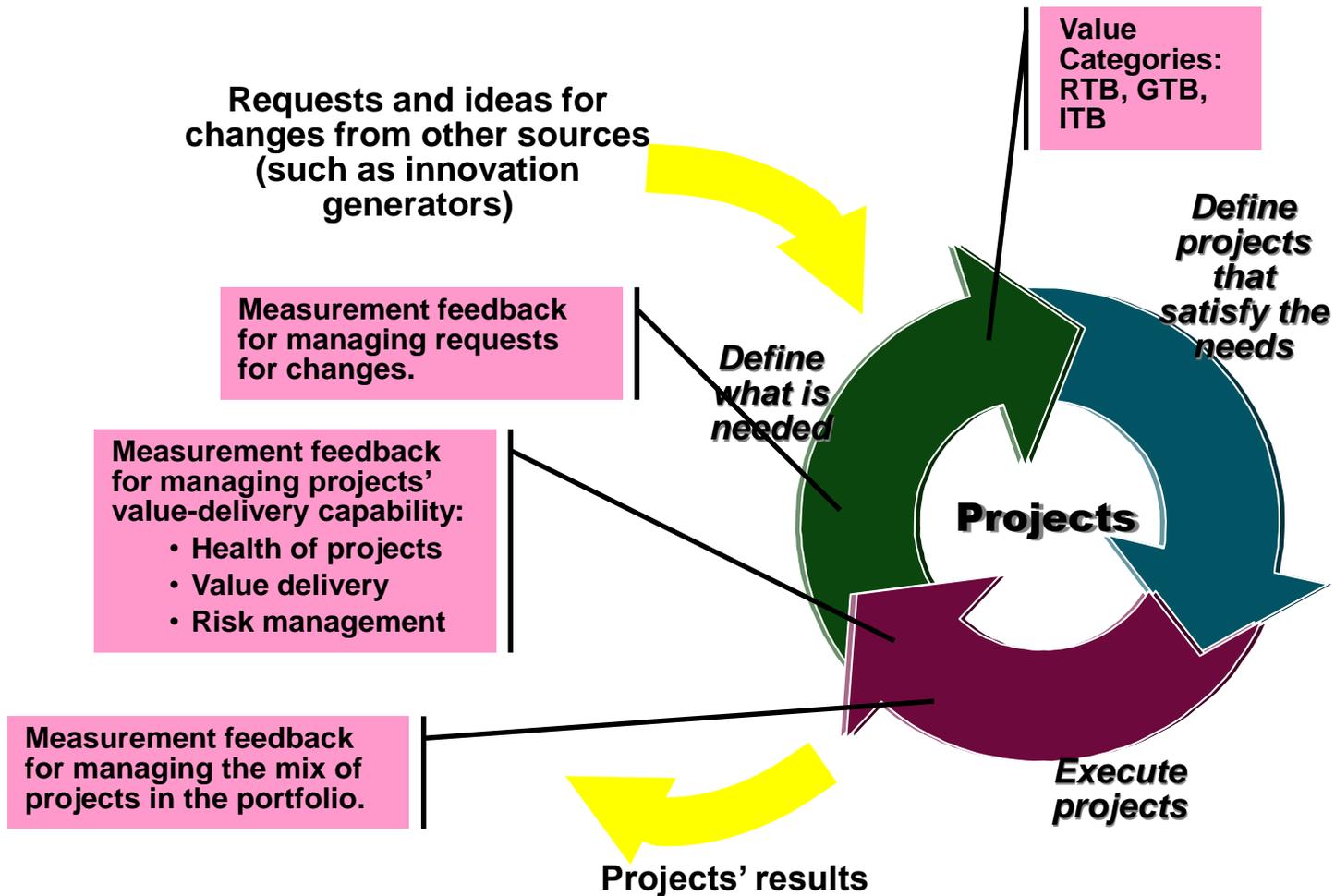
# Managing the Projects Portfolio

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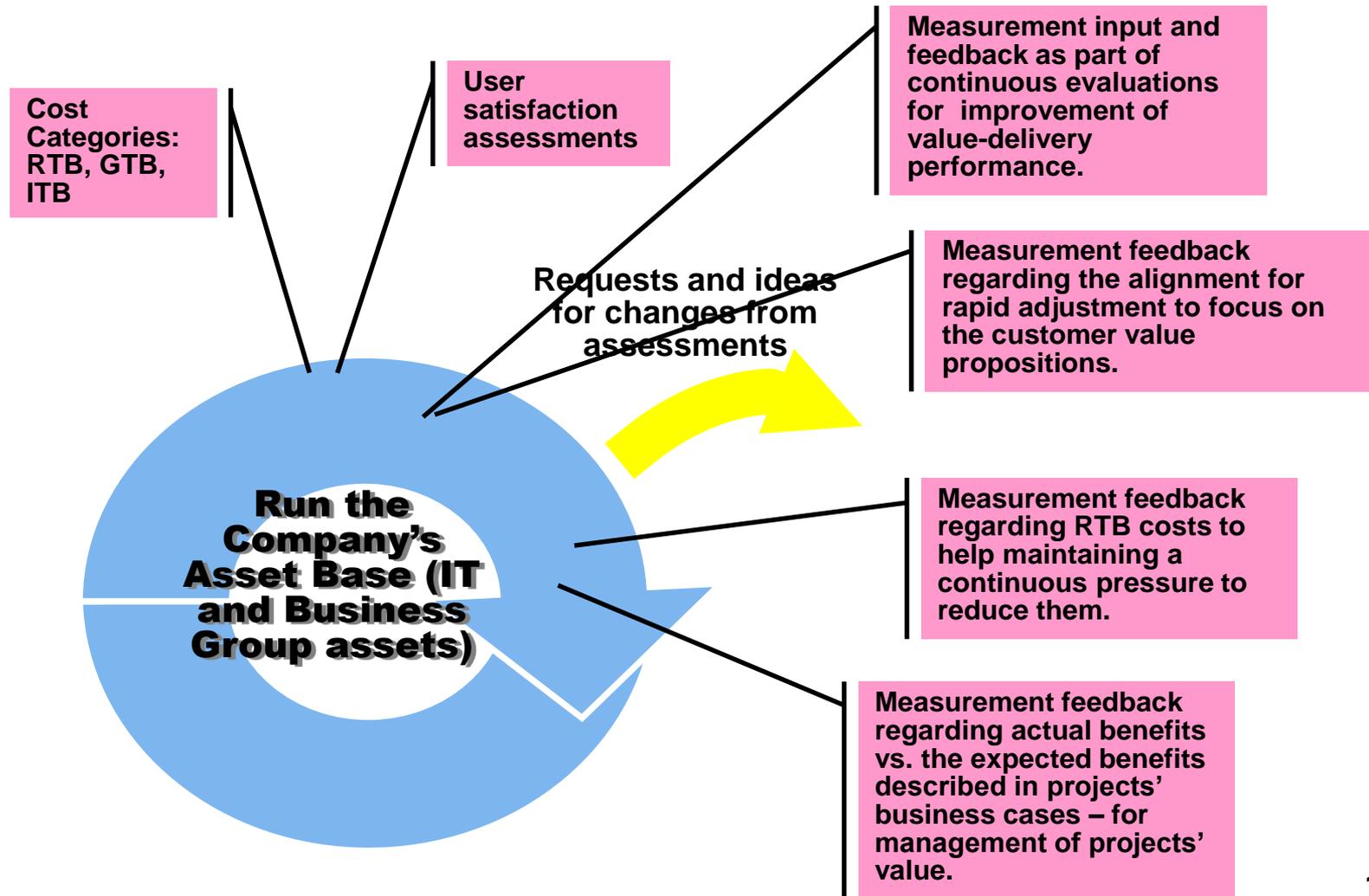
Clients are beginning to apply investment principles to manage their project portfolios. An investment perspective considers business value, cost, and risk

- The organization has one set of projects - break down the barriers between the users' projects and the IT projects.
- A “project” is a mechanism for making changes to the organization's assets (both in the IT and business groups)
- The health of the projects in the portfolio must be monitored and managed
- The environment and demographics of the projects change over time; therefore, the expected value and risk levels of projects in the portfolio must be monitored and managed.
  - The ability (and skills) to cancel projects is critical
- A value management function ensures the expected business value is generated from the project's results.
- The portfolio should be balanced, according to the business needs, according to factors such as risk, benefits timing, investment targeting, benefits type, etc.

# Impacts on Measurement



# Impacts on Measurement



# First Steps

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- Every organization is different, and Portfolio Management can impact many areas.
  - Begin with a brief assessment to answer:
    - What are the key gaps?
    - In the first phase, how far can we go?
    - How should we manage the transformation?
- Likely starting points:
  - Create Value Categories to establish an investment “language” for the organization, enabling more constructive conversations with the user groups regarding where and how to invest.
  - Establish rigorous value management of projects:
    - Regularly review in-process projects to determine if they are capable of delivering their expected value, or whether their risk level has become intolerable
    - Post project implementation: manage the results to make sure the expected value is delivered

# Let's Review

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- How assets are viewed
- Strategic Capabilities Network
- Investment analogy
- Costs & Risks
- Projects portfolio
- Measurement
- First steps

- *How has the definition evolved?*
- *What parts of it have - and have not - been adopted in the marketplace?*
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# Thanks!

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**Your feedback is valued.**

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