Technology Consulting

Optimizing the business value of IT

How IT investment portfolio management helps drive high performance

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Chief information officers have their hands full—very full. They're under growing pressure to demonstrate the value of IT—delivering the changes and capabilities that the business needs to achieve high performance, while showing that technology can sustain and even stretch the strategic agenda. CIOs must craft an IT investment portfolio that is aligned with the CEO agenda without adding complexity, while also performing real-time planning to anticipate and maximize the use of finite IT resources.

Accenture's High Performance IT Research indicates that sustaining the right level of IT investment is critical to maintaining both business and IT productivity. What is "right"? Our research indicates that for most large companies "right" means at least 40 percent of the global IT budget is focused on discretionary investment aimed at building IT-enabled business capability. Our research also indicates that leaders in IT execution industrialize their planning and delivery capabilities to ensure that the required IT resources are available and appropriately skilled to deliver the business objectives of the IT investment portfolio. Linking business alignment to more dynamic IT planning is critical to achieving high performance, and for many organizations the greatest single challenge is to improve how they make key IT investment and planning decisions. Many companies make significant investments in "governance tools" to overcome these challenges, but automation alone will not fix the problems. Portfolio management transformation requires a clear vision for the planning and execution of IT demand that brings together people, processes and tools.

Failure to deliver the required improvements can (and often does) result in dissatisfaction with the IT operation, regardless of the level of investment. Where effective processes are lacking, it is typical for there to be little discipline in decision making and priority setting for the IT investment portfolio. In such circumstances, it is also common for projects to continue (and remain funded) even when the original reasons for investing in them no longer appear valid, for substantial IT budget to be spent on "must-do" projects without clear business value, and for there to be uncontrolled increases in systems and business complexity.

In essence, CIOs must manage and apply IT resources in a way that clearly delivers the greatest business value from technology. These resources fall into four categories: highly-skilled people; business applications; infrastructure; and IT-enabled services. Given the continuing pressure to reduce costs, CIOs need to "run IT as a business"—managing these resources productively and within budget—while at the same time flexing the resource mix in anticipation of future needs. Good governance clearly matters here. While the design of key management processes will differ—what applies to staff may not apply to applications, for instance—several themes are consistent.

- **Doing the right things**—prioritizing and selecting the right investments aligned with the strategic and operational imperatives.
- **Doing things the right way**—anticipating the impact of future demand, managing supply proactively and committing to solutions that maximize business value.
- **Delivering to commitments**—scheduling the right resources when needed, maximizing utilization and then overseeing delivery consistent with solution, timeframe and budget commitments.
- **Delivering the benefits**—ensuring that the benefits upon which portfolio investments were based are actually delivered to the business.

Good governance involves the creation of end-to-end processes that accomplish these goals at both portfolio and project level. Governance decisions need to focus not only on how effectively the IT solution supports the business strategy, but also on how it can be best delivered with available resources. These decisions also need to bear in mind the CIO's other imperatives—such as reducing complexity, renewing legacy applications, ensuring security and the need to deliver lower-cost and more reliable service that better meets business needs.

So what does it take to achieve more effective and responsive management of the enterprise's portfolio of IT assets?

A model solution: The Accenture Investment Portfolio Management Framework

Accenture has developed the Investment Portfolio Management Framework, a diagnostic model to help CIOs and top business executives align IT investments with the business needs and improve the management of limited IT resources.
[See Figure 1.]

In most organizations business and IT functions are involved in each element of portfolio management in some way; however, these efforts are rarely linked. High-performance businesses have an integrated view of all aspects of portfolio planning and execution and operate best practices in all of these areas.

Accenture's framework and supporting diagnostics help companies clarify the accountabilities for key elements of the governance framework and the operating model required to fulfill them. They define the outputs required (for example, management information) to improve decision-making, together with the processes and tools required to maintain effective oversight and control.

The outcome: Companies can better understand the maturity of their governance processes, identify areas for high-payback action and craft a transformation plan to improve performance.

Principles to guide transformation

In applying Accenture's framework, the following principles can be used to guide transformation:

1. Investment Portfolio Management is an enterprise issue, not just an IT issue

Too often, business and IT executives find it difficult to collaborate because they tend to see portfolio management objectives differently. It is important to establish a shared understanding of the interdependency between business and IT planning and execution—this helps improve decision making and ensures everyone works to achieve the same outcomes.

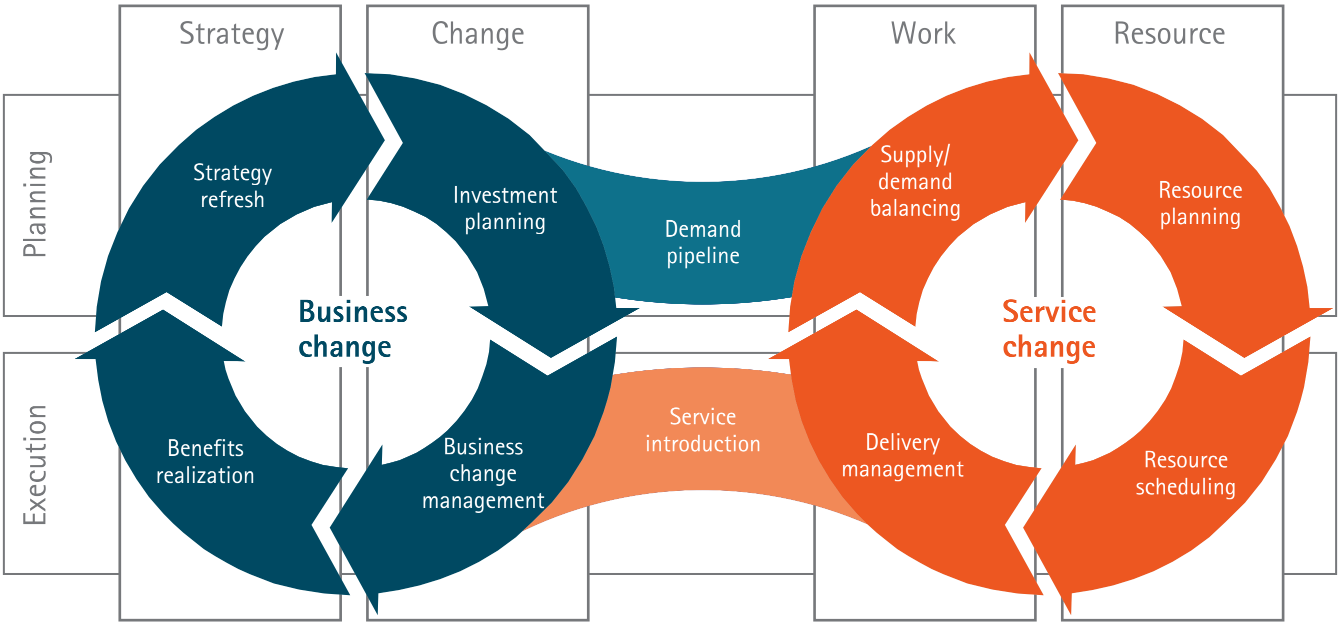
2. Planning is a habit, not a one-time event

Today's pace of business change has made three-year or longer change programs all but obsolete. Our experience shows that two years should be the outside limit for a major change program. Organizations should implement processes to review and refresh the investment portfolio regularly and as often as quarterly. There should be a clear understanding of the projects in the portfolio and the business justifications for their inclusion.

3. There are always opportunities to simplify the enterprise architecture and business operating model

For most organizations, ongoing simplification of the business/IT architecture is a long-term goal that

Figure 1: The Accenture Investment Portfolio Management Framework



helps to drive lower cost and higher business value. But the right governance environment is vital to enable IT to accomplish the journey from the current to desired future state. Managed properly, application portfolio management creates opportunities to simplify the entire IT architecture.

4. Service delivery cannot be compromised

The IT function's foremost goal is to deliver stable, standardized and industrialized service to the business in a way that helps it build business value and move towards high performance. IT investments that are required to preserve existing service levels need to be articulated in business terms and treated as non-discretionary.

5. Incentives must align with business strategy and value

Too often, business incentives trigger IT investments that do not support and sometimes even interfere with business strategy. The result is that project sponsors "talk up" investments to get them into the portfolio or find ways to circumvent the established governance processes. Incentives need to drive aligned behavior and governance processes need to facilitate the resulting outcomes.

6. Regulatory changes can (and should) work to your advantage

Regulatory compliance drives more and more IT investment, but the costs and benefits must be accurately assessed. Strong IT investment governance can enable organizations to think more architecturally about approaching regulatory change, exploiting it to drive competitive advantage rather than "shoe-horning" in changes at the last minute and often overspending in the process. Businesses need to define clearly the categories of change such as "regulatory" and "compliance"—avoiding ambiguous terms such as "mandatory"—while implementing strong governance to help ensure non-discretionary demand is controlled to allow maximum discretionary investments.

7. The big things must get attention first

It is important to focus management attention on projects that carry the greatest planning and execution risks, and to recognize that not all projects require the same level of governance. The 80-20 rule works here. It can help the organization to focus the majority of its analysis and "enterprise" governance on the programs and projects with the biggest budgets, the greatest complexity, the greatest business impact or the most significant risks.

8. People are an essential part of the process

The people and change management components are usually the most difficult challenges of transforming portfolio management. To make the required changes successfully, people at all levels must understand why it matters, and what their role is in making the change successful. Portfolio management decisions affect virtually the entire organization, and

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many people will not immediately grasp what is expected of them or why they should embrace new processes and behaviors. Implementing new ways of working requires intensive change management organized as a structured program, not as a "side-of-the-desk" exercise.

9. Projects need to be staffed sufficiently

In the absence of balanced, priority-driven staffing, IT projects often fail due to inadequate resourcing. Under-resourced projects often poach resources from other assignments, impeding progress and reliability across the portfolio. Such problems can be tackled by linking resource requests to business needs and prioritizing them appropriately. It is important to bear in mind there is a tipping point with regard to project staffing: unless projects are at least 80 to 90 percent staffed, meaningful progress is unlikely.

10. Good management information begets better decisions

All too often, organizations use tactical planning solutions that end up producing large volumes of data but little information. They starve themselves of quality management information by using fragmented and overlapping collections of data that fail to report believable facts or drive the right actions. The CIO should define the management information that will drive improved decision-making and use this definition to bring the "to be" vision to life, thereby pulling through the need for new processes and tools.

Tools and transformation outcomes

To help ensure that IT portfolio management operates effectively, the CIO will need appropriate tools. These tools include a wide range of IT management applications such as Project and Portfolio Management tools (for example, CA Clarity, HP Project and Portfolio Management), Enterprise Architecture tools (for example, Troux), IT Service Management tools (for example, BMC Remedy), as well as tools to support activities such as testing and requirements management. To achieve the optimal benefits from all of these tools, organizations need an integrated tools architecture to avoid multiple solutions to the same problem and the sharing of data as required.

Automated tools are not a solution in themselves. Our experience shows that they only work when integrated into a transformed portfolio management solution. This requires:

- A clear understanding of the problem that the tools need to help solve—and the outcomes required.
- Clear governance process designs that support the required outcomes and which complement the tools' functionality.

- A clear understanding of the process and software integration points between tools.
- Investment in business change activity to create business buy-in and end-user adoption.

The absence of any one of those elements can significantly weaken the effectiveness of IT governance tools and therefore undercut the entire operating environment. Many organizations have gone down this road and wasted time and money.

Building the "value story"

Transformation of IT investment portfolio management (including any investment in tools) requires a solid business case to justify the costs. However, this isn't always enough and, as such, executive sponsorship is often a critical factor in initiating and sustaining transformation.

The economic case for transforming IT portfolio management is compelling. The CIO will be better able to maximize development capacity to support business initiatives, stop projects that are unlikely to deliver appropriate business benefits, and help ensure project solutions simplify the IT environment. In addition there will be efficiencies in portfolio and project management operations, improvements in resource utilization and a greater throughput of project work delivered to plan.

Committed C-level sponsorship is, of course, a prerequisite for a successful transformation, appealing to a sponsor's desire to "change the way we do things around here." One impactful way to do this is to demonstrate important transformation outcomes, such as the new management information streams that could be available once new processes and tools have been implemented. This approach works because stakeholders see a tangible result that will make their jobs easier and more valuable. They're motivated to support and advocate the work—and to clear away issues that may hinder progress.

Overall, the message is clear: Effective portfolio governance increases the value of each element of the portfolio. Imagine the massive uplift in value that would come from an increase of just a few percent in the internal rate of return on IT investments. Add to that faster solution development—along with tighter integration and coordination between projects—and the case becomes even stronger. Take into account improved planning of the skills and resources required to support the evolving corporate strategy, and the case becomes irresistible.

Of course, IT investment portfolio management alone does not and will not guarantee high performance IT—the right business-aligned decisions are still needed. But with the right governance in place, it's much more likely that the best decisions will be made in the first place.

For more information about optimizing the business value of IT for your organization, please contact Tim Newman at tim.newman@accenture.com

About Accenture

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