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Ensuring the value creation of your growing ICT investments through continuous portfolio management

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Per Stenius, Paavo Räisänen

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The importance, complexity, and costs of ICT infrastructure keeps growing

As ICT applications have been evolving over the past several years, their scope has been expanding and an increasing number of integration points have been created between different systems. While the ICT utilization has spread to almost every imaginable area, it has also evolved to very complex environment, where information systems are very much interdependent and cross organizational and process boundaries. A change anywhere in applications, data and connectivity can have drastic consequences. Complexity continues to increase through mobility and collaboration needs.

Alongside increasing integration needs, technology and business models are going through continuous development cycles, increasing the technical complexity cycle by cycle. There is a pressure to increase spending on ICT just to keep up with competition, never mind creating competitive advantage. As ICT utilization has already covered the obvious and high value adding areas, the existing infrastructure is so heavy that even simple small scale features added on top of it tend to have a more than marginal effect on resources needed for development and maintenance. Some of the technological ICT innovations are even providing added value to ICT-industry alone, rather than focusing on adding value to the end-user organization.

In the light of increasing expenditure levels and complexity, we need more transparent ways to ensure that real value-add is achieved. There are numerous examples of ICT projects overrunning budgets and timelines, without bringing expected results. This has turned the focus on project and program management. Unfortunately this is only a partial answer – necessary but not adequate. In addition to managing technical execution of ICT projects and services, we need a new approach for managing the achievements and results. ICT investments and services should be viewed from a true business benefit perspective. This can be achieved through rigorous application of portfolio management tools and processes, which are well known from business strategy.

ICT investments and expenditures are often wasted since their impact is not explicitly defined and understood

Corporate management has difficulties in understanding the true value of ICT investments and application running costs. This is because ICT governance typically focuses on cost control and customer satisfaction, and complex and interrelated mechanisms to business impacts are not defined nor understood. Targets set for ICT projects and services are often internally focused, for example budgets, performance metrics and timelines. ICT projects are considered to be successful when they are executed within time and budgets and provide planned deliverables. When projects are accepted, there might be a business case describing the targeted benefits, but the practice of verifying the validity of assumptions and monitoring business case realization is not done.

Usually business benefits are described as potential savings, performance improvements or indirect benefits. Now, consider a case of an ICT investment projecting a productivity gain-percentage for the personnel: Even though the number is easily turned to value, the concrete value creation logic remains unclear. Will there be less people, more work or some other work? The actual definitions of how the benefits will come about and who is accountable are missing. This leads to a situation where non-biased project prioritization cannot be done when needed since the business benefits are unclear.

Even if the value creation logic of the ICT projects is clear, changes in the business fundamentals do not impact priorities and resource allocations fast enough. As an example, typical practice in product development is to kill development projects not delivering in time or not keeping within resource plans. It is a regular practice to ramp down non-productive services and discontinue obsolete and loss creating products in order to ensure optimal

resource usage. Similar systematic practice in ICT operations is not used. In ICT, regular practice is to go ask for more resources and time with explanations of changed scope and unexpected circumstances.

To ensure ICT value creation, the overall investment and execution process should be continuously managed and linked to the business decisions

A successful ICT project portfolio management practice must focus on three key issues:

1. Define clear business impact and real value targets for the ICT portfolio
2. Define metrics for measuring the ICT portfolio performance
3. Implement a continuous portfolio management process linked to other business planning

The ICT projects and services portfolio must have explicit and transparent metrics, a defined logic and a target for business impact. Clear and explicit definitions are important to make projects and services with different nature comparable. This is done by linking them to corporate level targets. They can be balance sheet and profit and loss statement items, balanced scorecard items, certain business capabilities or strategy items.

Single portfolio items also need individual metrics for performance tracking. Metrics are related to cost control, forecasting accuracy, unit and maintenance costs and operational efficiency like response times, trouble tickets solved, application and feature development throughput and created value-add. These item specific metrics should reflect the performance dimension in focus. The business cases and their value creation logic should also be continuously monitored.

In order to maintain the visibility and transparency of the ICT portfolio, there has to be a continuous portfolio management process in place. It must be linked to other business planning cycles and practices like strategy planning, short term planning and budgeting. A key prerequisite for the process to work is a single set of agreed criteria for resource prioritization and allocation. These criteria should be selected in a way that ensures that both the time perspective and dependencies are managed. The criteria selection should be based on corporate level target setting and priorities.

When the prioritization criteria are clearly set, resource and budget allocation becomes a practicality rather than a battlefield. By agreeing upon and systematically applying common metrics and criteria, the service and project portfolio can be managed as a single entity.

Running the process with accurate data enables us to separate three categories in ICT portfolio. The first category is things that have to be done, from legal, fiscal or operative perspective. They should be provided with efficiency and low overall cost. The second category is things that generate value. We should identify those with the best payback, ROI, etc. and they must have the priority over the others. The third category is simply the things we should get rid of. Continuous portfolio management practice is a tool that helps to balance these three categories and ensure that ICT investments create the planned and expected value.