Enterprise and Project Portfolio Management Software is a Killer, *Not* a "Killer App"

by Bit Economics, LLC

In Ovation of Innovation ™

Strategic Performance Insights

Status aggregation tools and software, marketed as enterprise or project portfolio management, are failing to deliver on their promise, and can be extremely costly in the long run.

Bit Economics, LLC conducted a two-year survey from late 2002 to 2004 of over a dozen companies with project and program investment (portfolio) management software that had been operational a full year or more. A summary of key findings and results is described here.

Introduction

Outdated funding processes and the constant tension between infinite demand and finite supply during a time of fiscal constraint are weighing down the delivery of projects and programs. Business and Information Technology (IT) organizations both large and small are being squeezed as they struggle to do ever more with less and less.

PPM solutions assume absolute success for every project until inevitably, the slowly accruing data and opinions indicate problems.

Project Portfolio Management (PPM) was a siren song to those seeking a better way to fund, govern and oversee their investments. There is a glut of vendors out there now who have recycled and adapted their old project management tools and slapped a portfolio management label on it for the credibility it implies. They still continue to support meticulously capturing self-reported opinions and granular project data from a broad base of users but now they aggregate it across all projects.

Assurance solutions establish a baseline probability of failure for each investment type and then proactively and progressively work each to conclusive success.

The key to obtaining even minimally useful results from this approach is ensuring three things companies have little control over: ***compliance***, ***timeliness***, and ***truthfulness***.

Every user must comply with burdensome reporting requirements. They must compile and enter their data regularly, usually weekly, and they must embrace the principle of full disclosure in self-reporting. All of this must be accomplished despite using numerous, highly subjective e.g., "red-yellow-green" indicators that are not comparable from person to person, much less from project to project.

Absolute success for every project is assumed from the very beginning. Then, each investment inexorably works its way toward failure as accruing data and opinions (e.g., status reports) indicate problems.

Under these conditions, you're guaranteed to be behind in formulating a response because you're relying on chronically belated, backward-looking, and imprecise information for making critical investment decisions. Worst of all, using these aggregation tools, decisions are being made faster, at levels farther removed from the real truth, and therefore undertaken with a greater sense of false confidence.

This misrepresents true portfolio management which advocates consistent, comparative frameworks for evaluating investments and is based on proven financial management principles.

An alternative to this status aggregation model of portfolio management is one based on ***delivery and value assurance***.

An assurance-based model is founded upon a combination of quantitative and qualitative indicators, both leading and lagging, for measuring risks, relationships and returns. It uses proven practices in program and project management, oversight, independent validation and verification, and financial investment management adapted for a project environment. Best of all, it requires relatively few resources to effectively assure delivery and value from portfolios consisting of hundreds of millions of dollars in project and program investments.

The premise for assurance-based models is similar to that of mutual fund management. Competent fund managers do not make their investment decisions based solely on compiled opinions from underlying company personnel. The same expectation should hold for your project and program portfolios.

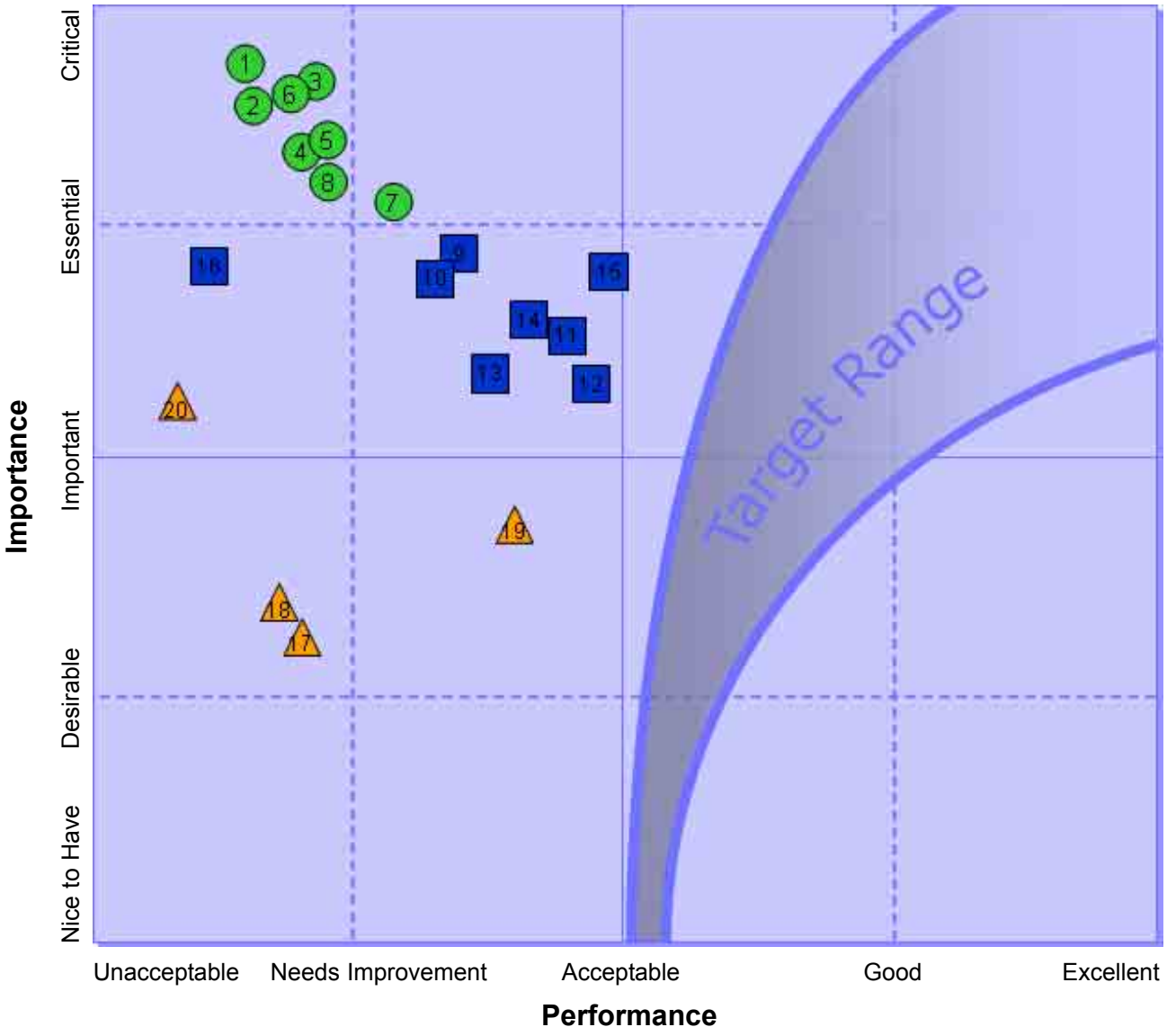
That is real portfolio management.

Survey Purpose and Format

Project portfolio management tools and techniques have become popular topics in trade and business journals. A number of high profile and reputable companies and government entities have made substantial investments in this capability. We thought it reasonable

FIGURE 1

Business Satisfaction with Project Portfolio Management Software



Element	Response Variance
1. Delivery Assurance	L
2. Value Assurance	M
3. Risk Management	L
4. Relationship / Dependencies Mgt.	M
5. Returns Management	L
6. Investment Alignment w/ Objectives	L
7. Existing Investment Rebalancing	L
8. Investment/Capability Health Assessments	H

Highest Expectations

Element	Response Variance
9. New Inv. Prioritization and Selection	L
10. Contributions to Risk by Role	M
11. Component Definition and Management	L
12. Investment Type Definition and Mgt.	L
13. Cash Flow Tracking and Management	M
14. Earned Value Tracking and Mgt.	M
15. Cost Tracking and Management	L
16. Project/Program Mgt. Consistency	H

Secondary Expectations

Element	Response Variance
17. Contributions to Risk by Named Person	L
18. Options Analysis and Support	H
19. Compliance Tracking and Mgt.	M
20. Status Reporting Quality	M

Other Expectations

(168 responses)

Key Observations:

- Essential elements are far outside the target performance range. The negative slope of the trend line for these elements (1-8) indicates a failure to focus on designated priority areas.
- Performance and support for the secondary priorities also remain outside the optimal performance range.
- PPM is failing them even in areas where respondents had the lowest expectations for what a portfolio management solution could do for them.

A number of high profile and reputable companies and government entities have made substantial investments in project portfolio management (PPM).

PPM software fails to meet business expectations for true portfolio management despite their large up-front and ongoing costs.

to collect a broad set of perspectives on the strengths and weaknesses of these capabilities thus far and understand what impacts they have had.

We compiled and standardized a list of common expectations that most business managers and executives had about portfolio management e.g., it would improve project delivery, yield greater benefits, help mitigate risks, etc. We then developed a survey that looked at all these expectations in terms of their relative importance versus how the organization is performing against them today. We used a combination of in-person interviews, hands-on product evaluations, and online surveys to compile the results.

We collected 287 total responses across 14 companies. In all cases, one or more investment management software solutions had been fully operational for at least twelve months and in many cases, for more than eighteen months.

For the greatest objectivity, recipients were selected primarily from those *not* directly associated with day-to-day implementation efforts or ongoing operation of the capability.

Findings

Across twenty different categories of performance, organizations using status report aggregation models of investment management expressed much higher levels of dissatisfaction with performance to date than those using an assurance-based model (see Figure 1, Page 4).

It is clear that in these organizations, investment management of projects and programs is not living up to its potential.

The top 3 investment management expectations in terms of their importance to the business; delivery assurance, risk management, and alignment of investments with objectives, were all perceived to still need major improvement.

Nothing ranked higher than "acceptable" in terms of its performance and average performance across all categories was only 1.4 out of 4.

We received the most comments from these respondents about project and program management consistency. Many cited onerous and expensive efforts to document required project and program management processes and practices yet consistency, beyond the most superficial funding requirements, was still not there.

Project and program managers only saw their compliance burdens increase in areas they considered irrelevant or at best, indirectly helpful.

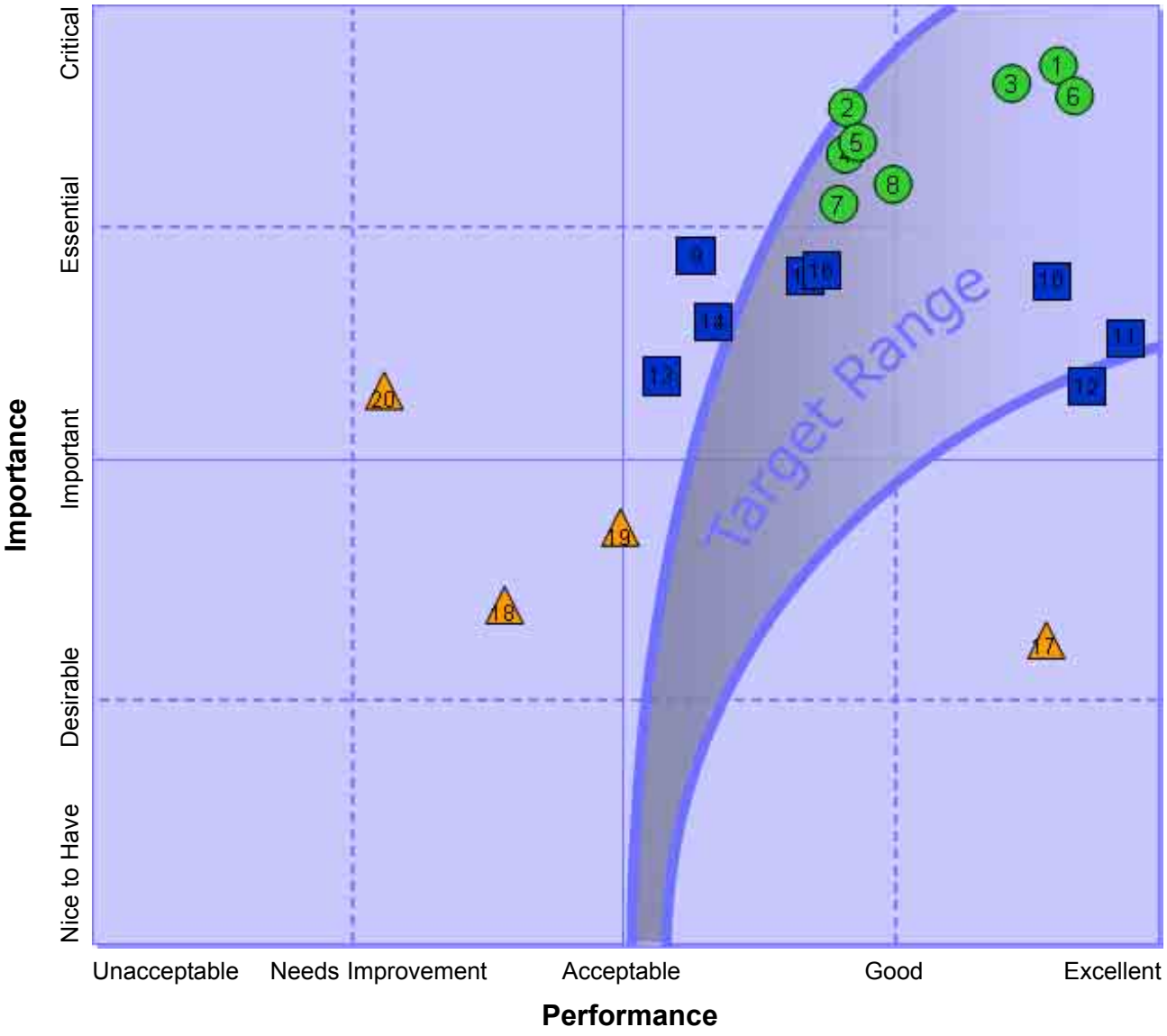
The only benefit cited was a sense of renewed attention to making sure they received more timely and accurate cost data about their projects from central financial systems. This was offset however by a renewed concern for competitively positioning their projects and programs, and themselves, in the most positive light week after week to ensure continued funding and resource support.

In contrast, organizations using assurance-based software expressed significantly greater satisfaction with their investment management capabilities, particularly in the top 3 priority areas of delivery assurance, risk management, and alignment of investments with objectives (see Figure 2, Page 6). Average performance across all the categories was 2.75 out of 4.

Areas still outside the target range but considered "acceptable" in their performance include traditional challenges like investment prioritization/selection, as well as earned value and cash flow management. The first tends to be heavily influenced by history and corporate politics while the latter two categories require ongoing training commitments.

FIGURE 2

Business Satisfaction with Delivery and Value Assurance Software



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20. Status Reporting Quality	M

Other Expectations

(119 responses)

Key Observations:

- Essential elements are well within the target performance range. The positive slope of the trend line for these elements (1-8) indicates an appropriate focus on designated priority areas.
- Performance and support for the secondary priorities are also more satisfactory.
- Even in lower priority areas, improvements are seen in what delivery and value assurance software can provide.

Further outside the target range are lower priorities such as real options analysis and support, although relative performance increases are seen compared to the other model.

Fundamental Differences

In true portfolio management, risk is a combination of uncertainty and exposure. Assurance models use this definition of risk and measure it quantitatively and qualitatively.

The differences in performance for these two approaches can be attributed to the basic underlying framework or lack thereof.

Enterprise and Project Portfolio Management solutions are nothing more than repurposed project and program management software that are now being used to further aggregate geographically dispersed projects. They have added some procedural consistencies in how one requests funding, the approval process, and status reporting variables, but still manage on a one-off basis with no quantifiable understanding of total effect.

The major and most important missing part is a framework by which an enterprise defines, quantifies and qualifies an investment. It is this framework that allows for both delivery and value assurance. By definition, a framework is not a collection of variables related to a project, but is the foundation of what makes an investment successful.

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A framework allows for consistent and accurate evaluation of similar investments, across time, geography, and resources. It allows for rapid assessment of value across an entire enterprise and consequently, better investment selection and faster portfolio re-balancing.

A framework allows for detailed cross-sectional analysis; strategic, tactical and operational dimensions versus people, process and technology dimensions. This allows for clear and distinctive views of the business and supports more granular and timely investment decisions in the areas that need it most or where the greatest value can be derived.

A framework is not something that can be added after the fact. Imagine a construction project where the foundation is added after the walls are up.

Most companies that have implemented portfolio management software are now seeking assurance capabilities to extract the greatest value from their investments on an ongoing basis.

Conclusion

Investment management software implementations, whether intended as portfolio management or not, require a significant financial investment. Unfortunately, when based on the aggregation of many users' statuses and opinions, these investments are not bringing the expected benefits.

These implementation groups tend to get caught up in the allure of governance and control processes when, in fact, the business expects that they will achieve consistent project and program delivery and value, with the lowest possible risks, in continuous alignment with strategic goals and objectives.

What is evident with these status report aggregation models is that the initial inventorying of projects brings a one-time cost reduction from pruning obviously underperforming or redundant investments but progressive benefits from these techniques remain elusive.

Assurance-based techniques proved much more effective in meeting business expectations for a portfolio management solution and needed significantly lower operating budgets, averaging less than $1MM (vs. $3.5MM or more for an enterprise-wide PMO overseeing ~$500MM in investments.)

By looking at each new project as the embodiment of one or more specific, pre-defined investment types, and considering both the company's

general ability to deliver on that investment type as well as the impact if a failure should occur, you have begun the process of true enterprise portfolio management.

Assurance techniques are highly effective and significantly cheaper to operate.

Among our respondents, the use of clearly defined elements of success for each investment type was considered a major factor in improved project and program management consistency. The use of defined success elements was also essential to the ability to quantify contributions to risk both by role and by named individual.

The vast difference in performance between adopters of the different models was surprising, even to us. Truly, the marketing engines of vendors pushing the status aggregation models are “full of sound and fury, signifying nothing."

“...simple, but not easy.” Warren Buffet (on the topic of Portfolio Management)

Warren Buffet once said portfolio management was "simple, but not easy". The same is true of enterprise or project portfolio management but the investments your business success depends on warrant the effort.

For more on assurance-based models for portfolio management or our patented business methods, visit BitEconomics.com.

About Bit Economics, LLC

Bit Economics is an exclusive advisory services firm that works alongside senior level executives and their teams to catalyze change and spur innovation in business and IT.

We help firms develop a compelling investment assurance capability that drives higher valued initiatives, greater investment accountability, and superior financial performance.

We engage on the front lines to quickly turn the vision into reality; implementing effective delivery and value assurance processes, opportunity and threat management capabilities, and related methods, software and tools.

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