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EXCHANGE  
FORUM **KXF**

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*Challenges in Determining  
Financial Benefits to Portfolio Management*

**ProSight**<sup>®</sup>

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# Preface

In the spirit of the KXF to share the knowledge and wisdom of the PM Community of Practice, these slides reflect the discussions that ensued during this presentation. These slides are the originals with added input from the audience. The discussion piece is shown in **red**. No judgment was made by the author as to the appropriateness of inputs from the group. The intension here is to merely record what happened during the event. Another caveat is that some interpretation and elaborations were made by the author in order to improve the readability of this document.

# Challenges to PfM

What are the challenges to generating a business case for PfM?

1. It is difficult to quantify the benefits of implementing PfM
2. Passion may overpower logic in an organization's ability to manage a portfolio.
3. Some people may resist PfM because it slows down the process.
4. It's difficult to build a holistic view. In other words, to view projects and investments in the context of their impact on each other and on the organization.
5. There is a cost associated with putting in the governance and management structure for PfM.
6. Difficult to get the resources, qualified skills and funding necessary to implement PfM.
7. Difficult to see the dependencies between projects. If one project is canceled, what impact will it have on other projects?
8. Difficult to build a good business case for PfM. The quality of the business case depends on maturity of the organization.
9. Company politics may/will affect both implementation of PfM and the selection of projects rather than logic. The effectiveness of logically selecting projects may not necessarily be a reality.
10. Does the corporate leadership have the skills to shape a vision for PfM and gain buy-in to the vision?
11. In order to justify PfM, you have to be able to know the pain points in the organization. Not everyone has that awareness.
12. How does an organization reach consensus on selecting projects?

# Topic Goal and Objectives

## *GOAL:*

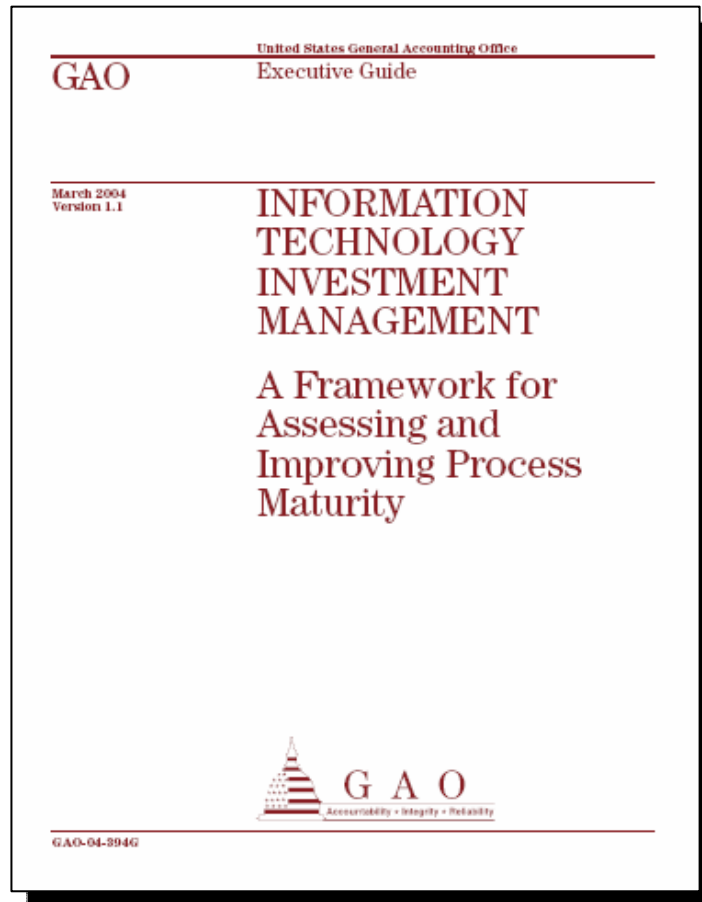
Present and discover approaches on how to measure benefits in dollars by implementing Portfolio Management.

## *STEPS:*

- Establish a maturity model framework
- Identify cost-benefits elements
- Quantify cost benefits elements
- Build the model and use!

# The ITIM Framework

*In order to quantify value returned in in PfM, it's necessary to begin with a maturity framework to measure the improvement. The GAO has published such a document and may be found by Googling the document #.*



## Benefits to a standardized framework\*:

- 1) Provides a rigorous tool assessing an organization's PfM process.
- 2) Provides a consistent and understandable reporting mechanism.
- 3) Provides a roadmap for improving portfolio management.

\* Assumes other good management practices!

# 5 stages to ITIM

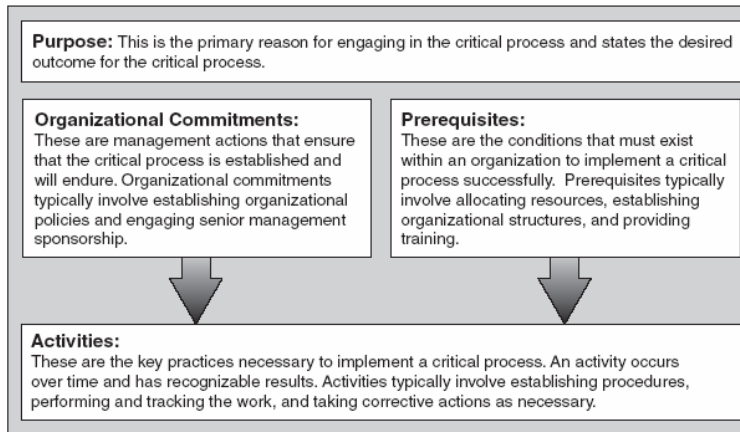
*The framework organizes 13 critical processes into increasing stages of maturity with each stage depend on the completion of the previous stage. Maturity centers around the ability of an organization to select, control and evaluate investments.*

Maturity stages	Critical processes
<b>Stage 5:</b> Leveraging IT for strategic outcomes	<ul style="list-style-type: none"> <li>- Optimizing the investment process</li> <li>- Using IT to drive strategic business change</li> </ul>
<b>Stage 4:</b> Improving the investment process	<ul style="list-style-type: none"> <li>- Improving the portfolio's performance</li> <li>- Managing the succession of information systems</li> </ul>
<b>Stage 3:</b> Developing a complete investment portfolio	<ul style="list-style-type: none"> <li>- Defining the portfolio criteria</li> <li>- Creating the portfolio</li> <li>- Evaluating the portfolio</li> <li>- Conducting postimplementation reviews</li> </ul>
<b>Stage 2:</b> Building the investment foundation	<ul style="list-style-type: none"> <li>- Instituting the investment board</li> <li>- Meeting business needs</li> <li>- Selecting an investment</li> <li>- Providing investment oversight</li> <li>- Capturing investment information</li> </ul>
<b>Stage 1:</b> Creating investment awareness	<ul style="list-style-type: none"> <li>- IT spending without disciplined investment processes</li> </ul>

Source: GAO

# ITIM “Key Practices”

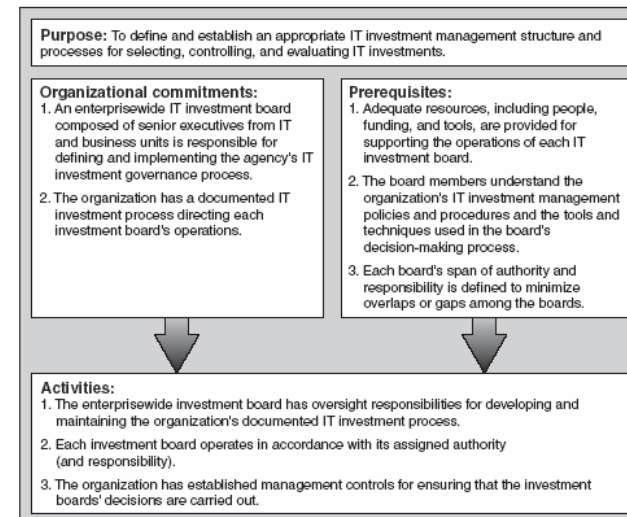
*Key Practices are the tasks that must be performed in order to implement and institutionalize a Critical Process.*



Source: GAO.

- Three categories of Key Practices
- Each Critical Process has Key Practices
- Sec. 5 of ITIM lists the Key Practices with commentary.

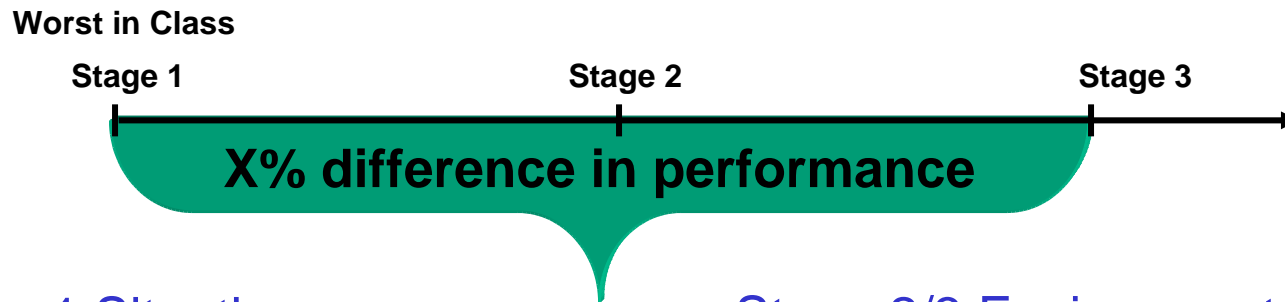
## Sample Key Practice for “Instituting the Investment Board”



Source: GAO.

# Exercise: Going from Stage 1 to Stage 3

To measure improvement, in our exercise we will assume the organization goes from Stage 1 to Stage 3.



## Stage 1 Situation:

- Little relationship between success/failure of one project and success/failure of another project = inefficiency of PM.
- Selection process is rudimentary, poorly documented and inconsistently applied = misuse of funds
- May not have process to address troubled projects = rework
- Selection process long and laborious = inefficiency of PFM.

## Stage 2/3 Environment:

- Projects are selected and prioritized based on established criteria (risk, benefits and organizational priorities)
- Projects do not overlap (use EA for IT).
- Portfolio selection criteria are established to focus on synergies of a collection of projects vs. just the single project.
- Portfolio performance is within 10% of cost, schedule, performance goals.
- Process are evaluated during Post Implementation Reviews.

## Where can PfM save an organization dollars by implementing PfM? (Identify the line items to quantify savings.)

- Cost reductions through elimination of redundancies:
  - Resources (people)
  - Streamlining of processes
  - Better efficiencies gained in the use of IT (systems, data and hardware)
  - Ability to consolidate the dollars spent with the vendors to negotiate better contracts and manage their performance.
- PfM saves money by canceling projects early in their lifecycle. Cancellations may be due to poor performance or changes in the business's priorities.
- Ability to identify candidate projects that shouldn't be done before they are even funded.
- Gains associated with evaluating results/performance of the project after the project is deployed. Did the project deliver as was originally intended?
- Better chances to realize financial benefits of the projects. Better PfM means maximizing Return on Assets.

What is the relative contribution of each line item to the business?  
Construct a model to determine bottom-line results.

The session identified the following elements. We could have identified more, but had to move on due to time limitations. The percentages are just off the cuff estimates that can be changed according to the specifics of an organization.

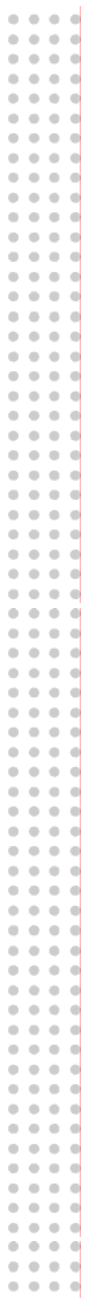
<b>Cost Element</b>	<b>Percent of the budget returned back to the organization</b>
Elimination of redundancies	30%
Canceling projects that fail	20%

# Financial Benefits Model to PfM

This is a rudimentary model that shows how an organization might cost justify the investment to PfM.

Budget to be managed by PfM = 50.	Year 1	Year 2	Year 3	Year 4	Year 5	Total
Cost to Implement and Own PfM	\$15	\$15	\$10	\$10	\$10	\$60
% of Potential Gain to PfM over time*	15%	35%	65%	75%	75%	
Dollars from PfM	\$8	\$18	\$33	\$38	\$38	\$133
Net Savings	-\$8	\$3	\$23	\$28	\$28	\$73

\* Assumes an organization never reaches 100% efficiency in PfM.



What is the difference between a financial benefits model in a government environment compared to a commercial environment?

- Government savings are limited to costs. Commercial entities can also add gains as a result of contributions of PfM to profits.
- Group made the observation, that PfM doesn't have to have a positive return. Even though PfM may not pay for itself, the realization of intangible benefits may make it worth the effort, e.g., lives saved.