

**White Paper:**

## In Tight Times, Ignoring Process Improvement Increases Business Risk



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In times of uncertainty, it is easy to focus the efforts of an organization on the areas most seen as contributions from IT – completing projects, lowering costs, and delaying expenditures. This approach is short-sighted, and in some ways can even lead to more risk for the business. IT expenditures add the most value to a business when they are closely aligned with business goals, and this is even more valid when the economic outlook is cloudy.

This paper discusses the one area where both business and IT leaders need to focus their efforts to get the maximum value from technology expenditures. It is not a list of hot technology. Rather, it is a compilation of good management principles on how to integrate your IT investment decisions into your everyday business planning.

Throughout this article you will often see the word “investment”. The meaning here is not simply to spend money you might not otherwise spend. It encompasses the entire spectrum of money spent on IT where any discretion can occur. Putting existing employees to work on one project over another is an investment decision in this context.

### Establish a Solid Project Management Office

As with most areas of a business, there are more ideas than time and money to implement them. IT is no different, and making the right investments in this area can make a big impact on the success or failure of a business. The right investments are less about the technology itself and more about how the implementation of the technology impacts the business. So it is vitally important to the long-term success of a business that IT projects are prioritized and decisions regarding which projects move forward are made within the overall context of the business, not just an IT-centric view.

Technology, like any other business investment, needs to match the business need with the appropriate solution. IT projects, and thus IT spending, can be broken into three major categories:

- *Maintain the business*: These are projects and activities that must be done to stay in business, but do not provide a competitive differentiator. Examples typically include accounting and payroll systems.

- *Grow the business*: The focus is on projects and activities that help grow the business by performing existing business processes with fewer resources, or taking on more business with the same amount of resources, be that people, warehouse space, manufacturing capacity or any other finite resource. These systems vary by industry but include better forecast systems to reduce inventory costs, self service web ordering to reduce sales costs or route planning applications to reduce transportation expenses.
- *Transform the business*: These projects and activities are the ones that help move the business beyond its current customers and products. These are the types of activities that took Nokia from a Finnish forest products company to a global telecommunications powerhouse.

The goal of every business should be to minimize spending in the first category to focus on activities and projects that continuously grow and transform the business. While IT can be an active participant in this decision making process, IT leaders by themselves cannot make these decisions. This is where a Program Management Office (PMO) is essential in making the right decisions.

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Properly implemented, the PMO is comprised of senior leaders from the business involved in making other critical business decisions. Decisions on which IT projects to undertake are best made when the people making them understand what is happening in other facets of the business. Delegating the PMO roles down to lower levels of the organization can result in decisions based on an incomplete picture.

For instance, acquisitions and divestitures by publicly-traded companies are typically closely guarded until a

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final agreement is reached for both competitive reasons and securities regulations on public information. When PMO responsibilities are delegated to lower levels of an organization, even when those people hold relatively senior positions, the PMO may not have the information needed to delay a project that may be unneeded by the time it is complete. When a project is approved to upgrade a warehouse management system, an important piece of information is the company’s intention to outsource their warehouse and logistics functions to a third party.

However, PMO members should involve their staff in evaluating projects presented to the PMO and understand the relative importance of the various projects. Few senior leaders may have the time to fully understand the projects presented and the full impact of each project, but they will need to understand this information and be able to present arguments for or against proceeding with a project.

Once the proper membership is in place, every IT project needs to be presented in a consistent manner to the PMO. Even projects that must be completed, such as efforts required due to government regulations, need to follow the PMO process and be authorized and scheduled. This is where many organizations fail in their PMO implementation, thinking some decisions are solely the purview of IT, the CEO or some other executive. Even when projects are IT infrastructure – network upgrades, hardware replacement or another technical project, the need for this project, and how it is sequenced with other competing needs, should be presented and justified by its business impact.

Another important role of the PMO and another area where organizations fail in their PMO implementation is in project oversight. After a project is approved, it is reasonable, and should be a normal practice, to evaluate the status of projects and ensure they will have the expected business impact, especially when there are delays or changes to the scope of the project. Whenever a major shift in the business occurs, the PMO should evaluate each active project to see if it is still needed. Frequently, organizations get trapped into thinking that because most of the money for a project is already spent, the remaining 10% or 20% should be completed. If you would not invest in the project based on today’s business needs, then continuing to spend money is most likely a bad decision. It is not admitting that a mistake was made, it is a

prudent business decision based on the current circumstances.

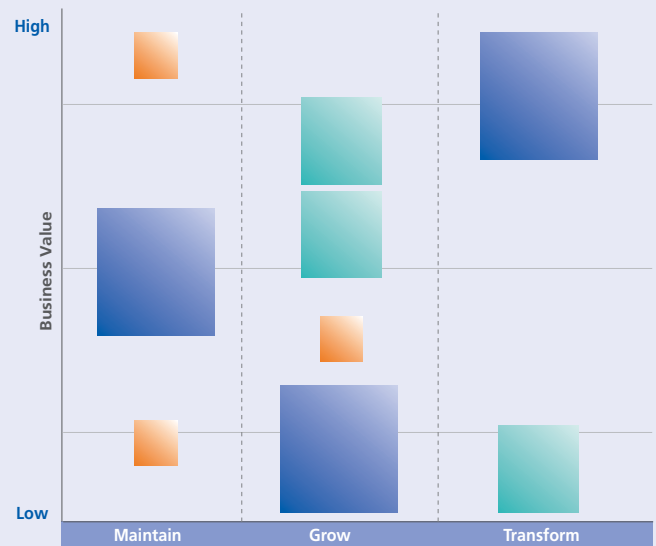
Of course, the size of the organization may require adjustments to this structure. Large organizations may find the need to have division or operating company level PMO’s that first approve projects, which are then fed to a corporate PMO to ensure consistency in approach. This will avoid the issue of multiple projects solving the same problem, potentially spending time and money that could put to better use.

The final step in developing a strong PMO is having the tools in place to manage your portfolio. Exercise caution when looking at tools for use by the PMO, as tools by themselves will not make a weak PMO strong. They do, however, provide a mechanism to communicate the business value of the application portfolio at any point in time when the effort is made to use them properly.

Organizations should look for ways to communicate business value versus cost across the three targeted areas of maintaining, growing and transforming the business.

Figure 1 (below) provides an example of how a PMO can represent both the value and cost of each application in its portfolio across the three targeted areas. The scale for cost can be different for each area, but the use of size and color provides an easy visual reference. In this example, size and color are synonymous, but both help reinforce the applications where changes may help better align IT investments with business needs. While all blocks in the low value regions of the chart are opportunities for improvement, red blocks in this region are the best place to start.

**Figure 1: Application Business Value vs. Cost**



The goal of the PMO is to minimize spending in maintaining the business to focus on activities and projects that continuously grow and transform the business. The balance of spending will vary according to the market, the business size and the current economic climate, but making IT investments without a long-term view of how the pieces fit together will eventually result in dead-ends where money has been spent with little to no return.

### **Conclusion**

Tight times often provide the needed impetus to better manage a business, and IT portfolio management is no different. Businesses can gain a lot from establishing a PMO where both the near and long-term needs of the business are considered when making IT investments. With an understanding of other investment decisions, business leaders can focus IT efforts in areas that have the greatest impact to the bottom line.