INTRODUCTION

The old adage that banks “need to spend money to make money” seems more apt now than ever before. Despite renewed emphasis on cost control at banks around the world, total IT spending at banks is projected to continue to rise over the next three years (see Exhibit 1).

A range of different goals are driving the growth in investment spending. Some investments seek to make bank processes more efficient via automation or centralisation. Others aim to comply with new regulations, such as Basel III. Still others aim to build competitive advantage in particular product or service areas.

Whatever the motivation, many banks today are struggling to cope with an increasing number of complex – and often interrelated – IT projects. More often than not, these projects are not classic “build and install” IT projects. They often require broader transformation skills in order to adapt processes, job roles, organisational structures and policies.

Managing a large portfolio of complex investment projects has become an essential competency at banks, especially for senior managers (e.g. division heads, CIOs, CFOs, COOs) who oversee all or part of the bank’s project portfolio.

Alas, banks have a poor track record of managing IT project portfolios. Industry research indicates that close to 70% of IT projects fail to achieve their original objectives.

EXHIBIT 1: IT SPEND FORECASTS 2010 – 2014

Source; Celent, IT Spending in Banking: A Global Perspective, 2012
Exhibit 2A illustrates the problem with an example project portfolio from a medium-sized commercial bank. The ten top-performing projects in Bank A’s portfolio delivered more than 50% of the overall value. The 40 or so worst-performing projects actually destroyed value equivalent to 30% of the portfolio’s NPV, with the bottom 10 projects eroding 25% of the total NPV. In a second sample portfolio, shown in Exhibit 2B, most projects in the bank’s portfolio either are not aligned to the bank’s strategy or have negative NPV.

This level of value destruction should be a priority concern for the banking industry. If all IT portfolios included a similar level of value destruction as shown in Exhibit 2, we estimate that IT projects would destroy as much as US$10 BN in value every year in Asia-Pacific alone, with similar amounts in Europe and North America.

The lack of tools to oversee and to manage project portfolios is a key contributing factor of project underperformance. Most banks lack effective project governance processes, policies and monitoring mechanisms. Senior managers in charge of millions or hundreds of millions of investment dollars are often “flying blind”.

In our discussions with senior managers at banks, we have seen this manifest itself in many different ways:

“We have zero central visibility over how we are deploying our scarce project resources.” – Asian Regional CIO

“The projects I know about are the tip of the iceberg. Local businesses initiate hundreds of little projects with no real central oversight.” – Australian bank CTO

**EXHIBIT 2: ANALYSIS OF SAMPLE PROJECT PORTFOLIOS**

**A: MORE THAN HALF THE BUSINESS BENEFIT DRIVEN BY TOP 10 IT INVESTMENTS**

**B: A NUMBER OF QUESTIONABLE AND NON-STRATEGIC PROJECTS**

Source: Oliver Wyman analysis
“If a big investment project is off-track, I’m usually the last one to know. I simply do not have the processes or staff to assess accurately whether or not all of my major investments are on track to deliver the expected benefits.” — Global Wholesale Bank COO

“We have a standard project management methodology, and everyone uses it. But it lacks practical rules to ensure in-flight projects deliver value.” — Global CIO

Flying blind is a dangerous business, especially in busy and turbulent skies. The current turmoil in financial markets combined with the increasing size and complexity of project portfolios means that many banks need to address this problem as a matter of urgency.

TAKE THE BLINDFOLD OFF!

How can banks gain control of their project portfolios? We believe effective project portfolio governance is based on five essential ingredients, as depicted in Exhibit 3.

**EXHIBIT 3: PROJECT PORTFOLIO GOVERNANCE**

<table>
<thead>
<tr>
<th>1. STRATEGY</th>
<th>2. GUIDING PRINCIPLES</th>
<th>3. DECISION RIGHTS, FORUMS AND PROCESSES</th>
<th>4. MONITORING AND PERFORMANCE MANAGEMENT</th>
<th>5. CULTURE</th>
</tr>
</thead>
<tbody>
<tr>
<td>Strategic imperatives to help set direction and priorities for the project portfolio</td>
<td>Policies and standards to provide clarity when making decisions and managing trade-offs</td>
<td>Governance structure and decision processes for the project portfolio</td>
<td>Methodology and tools to ensure projects deliver on time and to specification</td>
<td>Shared values and behaviours, particularly personal accountability and empowerment</td>
</tr>
</tbody>
</table>

We discuss each of the elements in turn below.

**1. STRATEGY**

Banks that excel here do two things well. They link the strategy of business units (BU) to the Group strategy. And they articulate the BU strategy at a level of detail that is operationally relevant and that allows managers to make sensible trade-off decisions.

In our experience, many banks do neither of these things. Some develop BU strategies in a vacuum, divorced from or only loosely related to the strategic objectives of the Group. Others leave strategy at a conceptual level, providing the BU management team with little concrete guidance in terms of how to spend investment dollars or to adapt the existing portfolio of projects already under way.
Ideally, a BU strategy would include a statement of the most important capabilities that must be built to promote the wider Group strategy. These required capabilities should then be translated into a target “enterprise architecture”.

The target architecture should describe the BU from different perspectives (process, functional, technical, organisational), and should be granular enough to allow management to make informed trade-offs between initiatives and to understand what should and should not be built. This architecture provides a key input to BU project portfolio governance, allowing management to assess the alignment of projects to strategy and relative project priorities.

The diagram below illustrates some tools for assessing the alignment of projects to the target vision and for deciding on priorities.

**EXHIBIT 4: EXAMPLE TOOLS TO ARTICULATE STRATEGY**

![Graphic illustrating tools for assessing the alignment of projects to the target vision and for deciding on priorities.]

We know one bank that refreshed these practical guides on a regular basis, syndicated them widely around the bank and formally signed off successive versions in a management committee. This made the strategy become a “living document” that received periodic scrutiny and renewal from senior management.
2. GUIDING PRINCIPLES

Next, banks should have policies that govern the change process. These should be concise and unambiguous. They should set expectations at each stage of the project lifecycle, effectively removing the element of surprise from project reviews for any project manager.

One best practice example comes from a European-based direct bank that has a well-developed set of guiding principles underpinning a de-centralised approach to technology. These rules balance the need for local customisation with guidelines that ensure adherence to a set of “non-negotiables” (e.g. core technology platform).

Guiding principles should cover four key areas, most of which are related to the management of scarce resources, as depicted in Exhibit 5.

**EXHIBIT 5: SCOPE OF GUIDING PRINCIPLES**

<table>
<thead>
<tr>
<th>AREA</th>
<th>OBJECTIVE, EXAMPLES</th>
</tr>
</thead>
<tbody>
<tr>
<td>Strategic alignment</td>
<td>• Clearly articulate how investments should support the top business unit priorities, i.e.</td>
</tr>
<tr>
<td></td>
<td>− We will put the customer at the heart of everything we do</td>
</tr>
<tr>
<td></td>
<td>− We are a bank that is simple and easy to do business with</td>
</tr>
<tr>
<td></td>
<td>− We will build the right solutions for each local business</td>
</tr>
<tr>
<td>Financial and non-financial performance</td>
<td>• Set clear objectives in terms of investment performance for projects, i.e.</td>
</tr>
<tr>
<td></td>
<td>− We will deliver best-in-class customer service</td>
</tr>
<tr>
<td></td>
<td>− We will deliver the lowest cost service</td>
</tr>
<tr>
<td>Resources</td>
<td>• Define threshold for maximising capacity given scarce resources, including financial, human capital, infrastructure and partner resources, i.e.</td>
</tr>
<tr>
<td></td>
<td>− We will leverage available resources to deliver the most cost effective (or highest quality) service</td>
</tr>
<tr>
<td></td>
<td>− We will creatively use potential resources to deliver the best service</td>
</tr>
<tr>
<td>Risk</td>
<td>• Clearly define the risk appetite that govern investment and management decisions, i.e.</td>
</tr>
<tr>
<td></td>
<td>− We are the world’s safest bank</td>
</tr>
<tr>
<td></td>
<td>− We are the most innovative bank</td>
</tr>
<tr>
<td></td>
<td>− Risk management is at the centre of everything we do</td>
</tr>
</tbody>
</table>

Guiding principles, combined with a comprehensive strategy, effectively shape all other elements of project portfolio governance. The decision-making frameworks, monitoring processes and, ultimately, culture all flow from these principles.

3. DECISION RIGHTS AND FORUMS, PROCESSES AND TOOLS

Decision rights should define who is authorised to initiate, to continue, to amend and to stop projects. They should also stipulate who sets standards (related e.g. to customers, products, processes, architecture and risk) and who controls the overall investment budget. These rules need to be embodied in a set of governing forums, decision processes and tools.
At large banks, centralised decision frameworks tend to collapse in on themselves – slowing down the change process and risking disintermediation as frustrated business units invent their own rules in an attempt to speed up the decision cycle. Conversely, de-centralised decision frameworks without group standards can create inefficiency and fragmentation, ultimately putting the bank at a competitive disadvantage. The trick is to design decision-making in a way that devolves as much control as possible to business units while maintaining firm control of key standards.

One European bank does a good job of striking this balance. It has a presence in over a dozen countries, having grown largely through acquisitions. This bank has established a decision process involving 20 “systems steering groups,” organised by business area, to identify needs and initial priorities. Its “Reference Group” consolidates and finalises priorities and budgets with final sign-off by an Executive Board. The clarity and discipline of this decision methodology gives businesses control over their individual project portfolios and optimises the shape of the portfolio at the group level.

The key tenets underlying this best practice decision methodology are:

• De-centralise decision-making as much as possible to allow individual units to customise their portfolio
• Empower individuals to increase decision efficiency and employee engagement
• Create joint business and IT representation at all levels of decision-making (e.g. project teams, governance forums, etc.)
• Use governance forums to coordinate decisions across multiple areas and to ensure alignment to strategy and guiding principles.

Banks seldom develop project control processes in this way. They thereby miss a big opportunity to improve overall efficiency. Here are four best practices that should become more widespread.

First, banks should incorporate a taxonomy of project types into decision processes. For example, routine maintenance projects would be assessed against relevant policies and budgets; regulatory/mandatory projects would be scrutinised for level of urgency and opportunity to consolidate key requirements in value-enhancing projects; and business change projects would be assessed strictly on strategy alignment, net benefits and feasibility. Large projects, requiring more detailed economic analyses, would be differentiated from small projects. Provisions would also be made for urgent projects via a fast-track decision process.

Second, banks should adapt decision gates to different project methodologies. For example, projects using an agile project methodology might have fewer decision gates and documentary requirements than projects using the standard waterfall methodology. For all decision processes, banks should seek to reduce the overall number of gates as much as prudently possible.
Third, banks should incorporate the concept of a “zoning permit.” The “project approval stage gate” or “building permit” often represents an onerous first milestone for projects. In order to obtain investment dollars, a project typically needs to show a detailed plan and business case. The opportunity cost for developing this material can be exceedingly high. So high, in fact, that it can discourage healthy risk-taking and innovation. The “zoning permit”, which comes before the “building permit” stage, provides projects with the seed funding required to explore whether a project concept warrants proceeding to the “building permit” stage.

Finally, banks should deploy decision tools to help evaluate the risk-adjusted financial performance of projects. Best practice banks are starting to use simulation tools to quantify project uncertainty by generating a range of possible economic scenarios (e.g. increases in cost-to-deliver, delayed benefit drivers, etc.) to estimate the distribution of project values. These “real option” models evaluate the often-overlooked embedded value in projects.

4. MONITORING AND PERFORMANCE MANAGEMENT

Performance management for project portfolios is extremely challenging in banks, where there are typically hundreds of projects and millions of dollars of annual investment spend. How does a senior manager provide effective oversight of so many initiatives? How does a manager oversee the portfolio at a level that will allow him and his team to identify projects that are going off-track?

The scale and complexity of monitoring is only half of the challenge. Even the best KPIs are subject to gaming from project managers, sponsors, and other stakeholders. A central governance team simply does not have the time or expertise to dive into the detail across the entire portfolio.

One client that we know has made good progress in addressing this problem. In addition to project-level metrics, their approach contains four key features:

- A portfolio-level performance dashboard that provides an accurate aggregated performance picture at different stages. Individual metrics combine leading and lagging indicators as well as objective and subjective metrics. These metrics cascade down into individual project performance metrics in order to align each project manager’s view of performance with the overall view.

Exhibit 6 below gives examples of portfolio-level metrics and dashboards.
EXHIBIT 6: EXAMPLES OF PORTFOLIO DASHBOARDS AND METRICS

Key performance indicators for monitoring portfolio direction (illustrative)

| Strategic alignment and forecasted progress in achieving target architecture | • # or % of strategic capabilities to be delivered  
• # or % of non-strategic capabilities impacted  
• # or % of non-strategic systems de-commissioned  
• new systems / decommissioned systems |
| --- | --- |
| Total financial risk-adjusted return | • Total net present value  
• Internal rate of return |
| Total cost estimates | • Total operating expense, and versus budget  
• Total capital expense, and versus budget |

Key performance indicators for monitoring portfolio progress (illustrative)

<table>
<thead>
<tr>
<th>Health assessment (e.g. red, amber, green)</th>
<th>• Subjective assessment by project manager, business lead, etc</th>
</tr>
</thead>
</table>
| Forecasted cost / plan cost | • Forecasted resources / plan resources  
• Forecasted days to complete / plan days to complete  
• Forecasted days to next milestone / plan days to next milestone |
| Test defect rate | • # of Approved architecture non-compliance exceptions |

The portfolio dashboard is used to diagnose systematic problems that need to be addressed: e.g. problems with procurement practices, vendor performance, financial management and quality of testing. This approach to portfolio monitoring maximises the chances of success for projects by providing the best possible development environment (e.g. for procurement, system build and testing). In the portfolio review, the portfolio manager is less concerned with the success of each individual project than the portfolio as a whole. Indeed, this approach acknowledges that there is no practical way for the COO to ensure a 100% success rate.
• **Rigorous prioritisation to identify the most critical projects.** These critical projects receive “deep dives” to help ensure success. The scope of these reviews must be well-defined, focusing only on issues that cause delivery failure. Hence, the “deep dive” should focus on one or two key questions in seven areas: financial performance, resource utilisation, governance and accountability, progress against plan, benefits realisation, risk management and strategic alignment. These reviews should identify potential or immediate issues and help the project sponsor address them. The appropriate oversight style will depend upon the degree of uncertainty facing the project.

• **Consequences for breaking rules or poor performance.** The portfolio manager must be able to influence the behaviour of project managers. Rewards and penalties need to tie in with the governance framework and rules discussed earlier. Some of the most effective consequences are not disciplinary penalties. For example, several banks we know have introduced “pollution taxes” to compensate for the extra cost of maintenance that non-standard architectures introduce.

• **Post-project reviews.** The portfolio manager needs to establish a feedback mechanism for prompt and frequent evaluation of past decisions. This helps generate ideas for improvement and sharing best practices.

5. **CULTURE**

Finally, the culture of the organisation must reinforce all aspects of the project portfolio governance methodology. Shared values and behaviours expected in the organisation, particularly personal accountability, empowerment, feedback and common group objectives should be articulated clearly.

The culture must then be embedded through senior leadership demonstrating expected behaviours themselves, rewarding and publicising examples of good behaviour and penalising poor behaviour.

**WHERE TO START**

Banks occasionally take a “big bang” approach to the transformation of project portfolio governance, simultaneously launching initiatives to overhaul each of the five elements of the governance framework we outline above. This approach often encounters difficulties due to a limited capacity to design and deliver change. Overhauling the entire governance framework in one go demands enormous attention from senior management and typically requires a roll-out period of many months before the bank notices any effect.

A more sensible approach involves a prioritised sequencing of changes, starting with a 30-day plan to accomplish two key objectives. First, put in place guiding principles that will drive the rest of the project portfolio governance framework. Second, identify and resolve urgent governance issues with key in-flight projects.
GUIDING PRINCIPLES

In Exhibit 5 above we illustrated the four areas that the governance guiding principles should cover. The first two should be addressed immediately: governance and planning.

The rules around governance should lay out the framework for ownership of projects and portfolios, defining the steering committee structures and roles and assigning responsibilities. Clarity about governance will be a critical first step to addressing decision rights and will provide a foundation for further improvements. We see three key deliverables during the first 30 days of work: policy definition for governance, governance structure design and the associated terms of reference, membership and responsibilities. The new model can then be introduced and embedded throughout the organisation.

In addition to governance, banks should define the rules for project “planning,” i.e. the rules that govern project milestones, deliverables, and reporting. These rules should define the way to monitor the progress of projects, and introduce flexible options to the typical change lifecycle in order to accommodate different kinds of projects. Banks should then define when it is appropriate to use the different project methodologies and the implications of this choice (i.e. high level stage gates).

PRIORITY PROJECTS REVIEW

The aim of this part of the 30-day agenda is twofold: to identify and help rescue important projects that may be in trouble, and to test the portfolio review framework before embedding it into the organisation. To ensure that the reviews are worthwhile, they should focus on projects that are high priority (i.e. in terms of business impact, capabilities building and risk mitigation). To ensure that the review framework is robust, the reviews should cover a broad spectrum of project types (e.g. large and small, new technology and legacy, domestic and international business units, etc.).

At the conclusion of the 30-day plan, a senior manager should have in place a clear set of policies to improve the governance and project planning as well as a clear implementation plan to drive subsequent work. He will also have a road-tested, top-down review methodology that should have started to yield benefits as part of the first wave of project reviews.

The manager also should have begun to form views regarding the longer-term roadmap for IT governance change. Many banks will require an overhaul of most, if not all, of the project portfolio governance elements and will need to develop a sequencing plan to effect these changes.

Project portfolio governance is a critical capability in the best of times. As storm clouds have gathered around financial institutions, flying blind has become an even more perilous activity. Poorly managed portfolios destroy value and divert resources away from critical initiatives. Managers of project portfolios must remove their blindfolds and navigate their projects towards achieving banks’ overarching strategic objectives.
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For more information please contact the marketing department by email at info-FS@oliverwyman.com or by phone at one of the following locations:

ASIA PACIFIC
+65 6510 9700

EMEA
+44 20 7333 8333

AMERICAS
+1 212 541 8100

ABOUT THE AUTHORS
Mark James is a Partner and leads the Strategic IT & Operations practice in Asia Pacific.
Patrick Ryan is a Principal in the Strategic IT & Operations practice in Singapore.

www.oliverwyman.com

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