

Achieving Excellence in Capital Asset Management through Project Portfolio Management

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Introduction

Strategic alignment of an organization is a challenging endeavor. An organization's strategy, consisting of vision, goals, and objectives, sets the tone for where the organization is trying to go. Achievement of organizational vision requires alignment of activities throughout the organization with this strategic plan. Resources, both personnel and monetary, must be allocated and utilized according to the priorities of the organization. This requires strategic alignment of projects, programs, and capital investments to ensure that they contribute to the achievement of the organizational vision. Through utilization of best practice project management models in initiating and implementing projects, strategic alignment can occur. Organizations that are not able to align resources strategically experience unneeded expenditures and lack of progress toward their goals. With the realization that misalignment of projects and capital expenditures with strategic direction breeds inefficiencies and increases costs to the taxpayer, the U.S. Government has instituted several programs designed to assist Federal agencies aligning resources, increase efficiencies, and reduce costs enhancing progress toward the mission and goals of these agencies. This paper describes these efforts through the prisms of strategic and project management and proposes a cyclical approach to strategic, capital asset, and project portfolio management.

The President's Management Agenda

The highest level of strategic direction in the Federal Government is established through guidance passed down from the Executive Office. In the current administration, this guidance has taken the form of The President's Management Agenda (PMA) and is based upon the three principles that Government should be citizen-centered, results-oriented, and market-based (OMB, 2002). The PMA supports the Government Performance and Results Act of 1993, which serves as the foundation for U.S. Governmental budget decision-making and strategy. This act establishes a standard that long-range strategic plans should drive budget formulation and execution; that resource decisions must reflect strategic priorities of the Nation; and that short-term performance tactics should be based on long-term strategic plans. Stemming from this, the PMA outlines measures of success for qualification of an organization's progression toward National goals and objectives and establishes five initiatives for improvement of impact in Federal agencies. The five initiatives outlined in the PMA are: Strategic Management of Human Capital; Competitive Sourcing; Improved Financial Performance; Expanded Electronic Government; and Budget and Performance Integration.

PMA Initiatives

Strategic Management of Human Capital

It is estimated that 71 percent of current Federal employees will be eligible for retirement by the year 2010 (Circular No. A-11, 2002). Without human capital strategies and intervention efforts designed to address these issues, this could result in a critical lack of senior leadership, institutional knowledge, and intellectual capital inside of Federal agencies. As part of the Strategic Management of Human Capital initiative, the PMA proposes a five-year plan to decrease the number of management levels in Federal organizations and to increase the direct value of the missions of these agency's to the American Public. Immediate critical success factors of the plan include strengthening of the organization's ability to link human capital strategies to the organizational mission, vision, core values, goals, and objectives.

Secondly, the organization must utilize strategic workforce planning and flexible tools to recruit, retain, and reward employees in order to develop and maintain a high-performing and adaptable workforce. Finally, the organization will need to identify core competencies in the workforce to be addressed with a practical mixture of government employees and contractors to continue to provide the highest quality of service. The long-term goal of the initiative is to increase citizen satisfaction by ensuring that tax dollars are being invested in the most efficient manner.

Competitive Sourcing

This initiative addresses the existing problem of stifled competitiveness throughout government agencies. The Competitive Sourcing initiative strives to use smarter competition to gain better results. For example, one trend that was seen among federal agencies is that they are incorporating larger competitions. According to an OMB Executive Report on January 25, 2004... "the average size of a competition has increased from 27 Full-Time Equivalents or FTEs in Fiscal Year 2003 to 58 FTEs in Fiscal Year 2004" (Cheney, 2004). The advantage is that larger competitions mean a matrix of resources so agencies can more easily bundle their services for added value. This practice has proven especially effective for the Department of Agriculture and the Social Security Administration, who experienced increased savings of more than \$10M in 2004 (Cheyney, 2004).

Improved Financial Performance

Federal cost savings are the primary theme communicated by The Presidents Management Agenda. In an effort to improve on financial performance, the PMA addresses excessive, unaccountable spending such as the reported 20.7 billion dollars in erroneous benefit and assistance payments made by only thirteen government programs. The Improved Financial Performance effort first seeks to improve timeliness by re-engineering reporting processes. Quarterly financial statements would be reviewed and maintained to aid in accelerating end-of-year reporting. The initiative seeks to improve usefulness by comparing financial reporting and integrating financial and performance information. Improved Financial Performance means ensuring reliability by sustaining clean audits of government components, government agencies, and government business as a whole. Critical success factors for this initiative are remarkable improvement to timeliness, accuracy, and reliability of financial information. It is also imperative that information reported is useful and that improvements made show cost savings to the Agency or program.

Expanded Electronic Government

Expanded Electronic Government, or E-government, aims to correct the lack of measurable gains compared to the amount of money spent on Information Technology. This initiative seeks to prioritize projects that offer performance gains across agencies. It also promotes scrutiny of IT investments for how they maximize interoperability and minimize redundancy. The effort challenges government agencies to move away from the traditional bureaucratic chains of command in order to take advantage of the opportunities that IT has to offer. In the current paradigm, financial systems, procurement systems, and human resource systems are often developed separately and remain independent. This is an inefficient use of innovative technology. The government culture must no longer view integration and collaboration of systems, functions, and processes as threats, but rather as opportunities for growth and efficiency. By expanding E-government, the PMA promotes single access points into government services; disseminating information to other federal agencies, local agencies, and international institutions; and automating internal processes. Critical success factors of this initiative include cost savings, an increase in service quality, and easier access to services for customers.

Budget and Performance Integration

The fifth and final initiative on the PMA is Budget and Performance Integration. This initiative seeks to reform the non-existing link between budget and performance in order to improve results. By linking budget with performance, the initiative makes way for solutions to make measurement systems more robust and to make decision information systems more practical. The success within this initiative depends on budgetary resources being applied to programs that are performing optimally; increasing control of resources; increasing accountability; and improving service. Traditionally, the structure of the Federal budget would not allow agencies to identify full costs associated with specific programs. This has not only stifled competition, but has led to convoluted and inefficient rules for measuring cost.

Organizations may have difficulty wrapping their arms around all the initiatives in the PMA, therefore identifying which initiatives are important to the organization completing its mission is key. Translating the President's priorities into organizational priorities occurs during the organization's strategic planning cycle.

Organizational Strategy

Organizational strategy and planning are integral to the success of any organization. Leadership must establish direction and the roadmap to follow that direction. Without clear strategic direction, organizations are reactive and both new and legacy projects lack cohesiveness. Subsequently, managers and employees are without strategic direction and make decisions based upon their own personal priorities rather than working towards a common organizational set of goals. Strategic planning should be continuous throughout the life cycle of an organization and formally conducted at least annually. This planning is a cyclical process of assessing, defining, planning, and measuring (Exhibit 1).

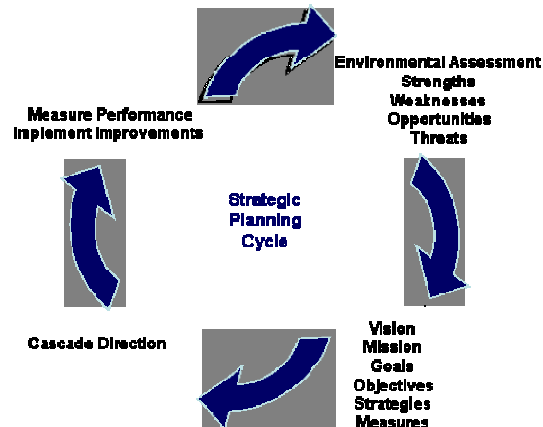


Exhibit 1: Strategic Planning Cycle

Environmental Assessment

The Environmental Assessment is the scan that the organization takes both internally and externally in the form of a SWOT (strengths, weaknesses, opportunities, and threats) analysis. Internally, the organization looks for strengths that it can capitalize on and weaknesses that can derail improvement efforts. Externally, the organization looks for opportunities that it can pursue and threats that can prevent the organization from succeeding. This information is then analyzed and provided as data for generation or update of the organization's strategic plan.

Strategic Plan

The Strategic Plan is the document that houses the strategic direction of the organization. Facilitated sessions yield elements of the Strategic Plan. The Vision is where the organization wants to be. The Mission is what the organization does and why it exists. Goals are how the organization is going to reach its vision. Strategies are plans to attain goals. Objectives are measurable activities to attain goals.

Cascade Direction

Communicating the organization's direction is by far the most important part of strategic planning and organizational improvement. This is also where many organizations fail. Strategic communication is key to any improvement effort. Various mediums need to be utilized in communication. Additionally, accountability for each person's role in achieving the strategy must be performed through performance goals and evaluations. Failure to achieve strategic alignment may result in a disconnect between senior leadership and all levels of the organization and minimal progress to achieve the organization's vision.

Measure Performance and Implement Improvements

Reviewing the strategic measures at regular intervals is critical in order to ascertain whether the organization is on track in completing objectives and working towards attaining its vision and whether the right measures are being collected. Waiting too long to review measures can hinder an organization's ability to make needed changes when it finds it is not progressing against declared goals and objectives as planned. Reviewing measures too frequently may result in changing initiatives too soon. Therefore, it is important to ascertain the frequency that each strategic measurement needs to be reviewed. Subsequently, how well organizations cascade strategic direction through their priorities and expenditures is measured.

Capital Asset Management

Capital Asset Management is performed in the federal government through the Capital Planning Guide through the use of the Exhibit 300. The purpose of the Exhibit 300 is to serve as the justification of business cases for major government capital infrastructure and information technology (IT) investments (Circular No. A-11, 2002). It is a requirement for investments that have significant national program or policy implications; for investments that have executive visibility; and for investments that are defined as major by the agency's capital planning and control process.

Before the institution of a formalized capital asset planning process, justification for IT projects was largely casual and unrefined. An agency division or any sub-level of an agency initiating an IT project would prepare a short business case that would stand as proposed federal budget expenditure. This approach contributed to two major problems which have stifled capital asset management in the government thus far: the most urgent priorities were not always awarded a budget, and those projects that did win often failed to support a rational enterprise-wide strategy (P2C2 Group, Inc 2004).

The solution to these dilemmas is one that is gradually being realized and accepted in the Federal sector. Capital Asset Management should be built around the organizational strategy and driven by the mission. This approach is a powerful advancement for Federal capital planning in that it promotes clearly defined objectives, prioritized projects, and cost benefit analyses. Below (Exhibit 2), the construction of mission-based capital asset management is illustrated.

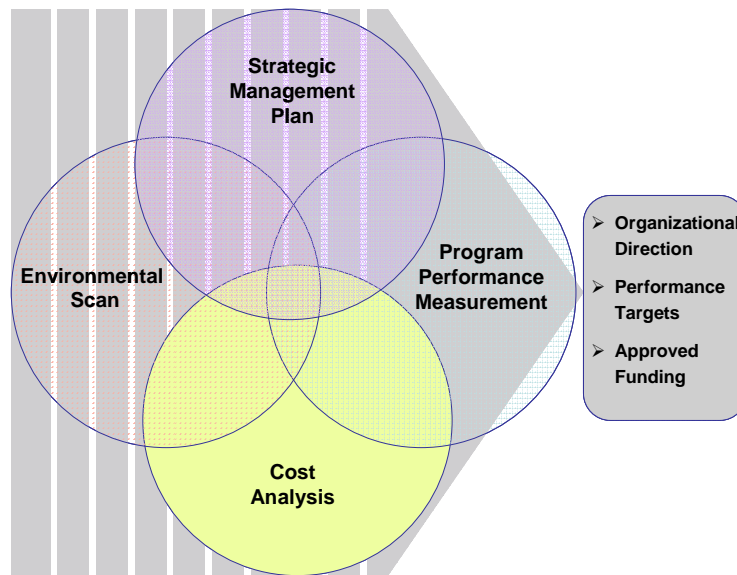


Exhibit 2: Mission-Based Capital Asset Management

OMB realized that organizations were not planning effectively for capital investments and that IT projects were loosely tied together without any clear rationale from an enterprise perspective as to why these IT projects should be funded. Thus, OMB has worked to help provide a framework for organizations to link their capital planning and investment expenditures together culminating in the Exhibit 300 Business Case. Additionally, it is of growing importance that agency IT investments fit within the enterprise-wide Federal Enterprise Architecture. However, IT planning is a cradle to grave process that consists of planning, prioritizing, and implementing IT projects. Project Portfolio Management can provide organizations with a structured approach to this process and ensure that IT projects are correctly prioritized and implemented for the organization to realize maximum results.

Once an agency completes and submits the Exhibit 300, it is then evaluated by OMB. During the evaluation, OMB focuses on program and budget justification and an assessment of the business case. In this case, an organization's Exhibit 300 submission should be balanced with a thorough business case as well as effective programs. The consequence of not meeting the minimum required scores is for that organization to be added to OMB's watch list. Repeat appearances on the watch list can create hurdles during the quest to gain funding approval for major investments. Thus, Capital Asset Management is supported through sound Project Portfolio Management practices as described below.

Project Portfolio Management (PPM)

Implementing sound project portfolio management practices can assist organizations in making capital investment decisions and managing those decisions to fruition. There are many advantages of employing sound business practices through Project Portfolio Management. For instance, PPM promotes better project management practices. It improves the overall execution of the project, producing better results. PPM also responds better to changing conditions and business requirements. Finally, PPM ensures alignment of projects and their resources with organizational strategies and government mandates.

Success in incorporating PPM in capital asset management should pivot on the following key points:

Standard project management practices must be refined and demonstrated within the agency. This should be the first step towards capital asset planning reform. A portfolio of mismanaged and ill-defined projects will not achieve success.

A formal Project Management Office (PMO) is recommended for an agency to have established. If no PMO is established, consider standing up a Project Review Board (PRB). A dedicated organization should be in place in order to enforce sound project management practices; to provide model solutions for Exhibit 300 completion; to manage project portfolios and maintain them as effective tools for strategic investment planning; and to set the precedence for enterprise project management.

Sound PPM practices should promote capital asset planning on an enterprise level. Instead of categorizing project portfolio information at an agency’s sub-level such as division or branch, portfolios should be categorized by business objectives (e.g., product development, performance improvement, customer relationship management), containing projects from across multiple functional areas, divisions, sub-agencies, etc.

A tri-phased approach to establishing a Project Portfolio Management System that will aid in Exhibit 300 compliance and enterprise capital asset management is presented below (Exhibit 3). Each phase of this approach empowers agencies with the tools they need to meet or exceed organization requirements under the PMA and to prepare for completion of the Exhibit 300. The three phases, guided by the Project Management Office (PMO) or Project Review Board (PRB), are Research and Planning, Solutions Development, and Implementation and Support.

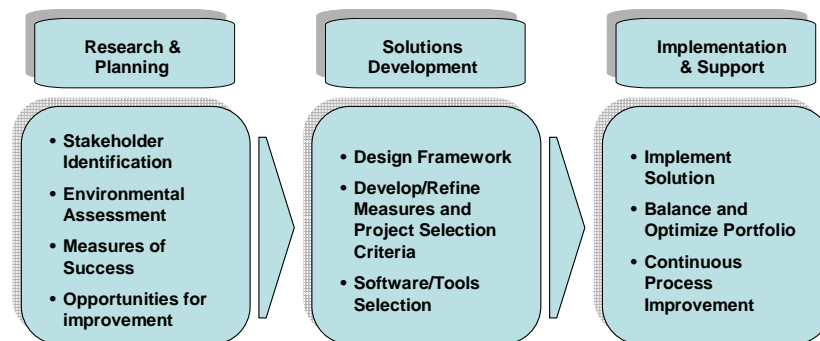


Exhibit 3: Project Portfolio Management Framework Development

During the first phase, Planning, the PMO needs to understand the agency’s current goals, strategies, and measures of success. Then the PMO works with management to incorporate the PMA initiatives into the business strategy. The results of this key phase are that project requirements are identified, a plan for building and executing the project portfolio is developed, and an assessment of the current project environment. Once the stakeholders’ vision is understood, the second phase is where the PPM solutions are developed.

During the Solutions Development Phase, current projects are aligned with business strategies and the Exhibit 300 categories are examined and analyzed against the capabilities of the organization. From this analysis, a PPM framework can be designed. Also, new metrics and project selection criteria are developed and existing ones are refined. Additionally, deploying the right tools to help manage the portfolio is important. Therefore, software and tools are selected or designed during this phase.

Once the PPM solutions are created, successful implementation of these solutions is the validating point of the effort. The PMO provides project management support during the Implementation and Support Phase. In addition to implementing the PPM solution that was developed in phase two, the portfolio is balance and a continuous improvement process is guided.

Continuous improvement includes further refining metrics to optimize portfolio performance and impact. The cycle also includes future assessments of portfolio performance. It is also important to continually test the alignment of the portfolio with the organizational mission and strategies. A cycle of these three actions are imperative to maintaining an optimal portfolio of projects. Next, examples of how Project Portfolio Management has helped organizations improve are provided.

Successful Capital Asset Planning in Government

After implementing Project Portfolio Management practices, the Food and Drug Administration (FDA) was able to understand how their IT systems support various business activities. Additionally, they were able to distinguish major initiatives that required Exhibit 300 submissions from those that did not. As a result, the FDA was able to reduce the number of Exhibit 300 submissions from 31 to 21 in 2004 by determining which systems truly required an exhibit, and which could be rolled into consolidated forms that more accurately reflect system interoperability (O'Hara, 2004).

The Department of Veteran Affairs has also experienced the advantages of successful PPM implementation. As a result of successful Project Portfolio Management, the VA passed all 59 of its Exhibit 300 cases the first time. They are the first federal agency to do so.

Conclusion

Getting everyone on the same page in an organization is challenging. However, several tools can assist in ensuring everyone in an organization is working towards the same direction. Using the President's Management Agenda as a guide for national priorities can assist government organizations in establishing and updating their strategic plans. By cascading direction throughout the organization through capital asset planning and project portfolio management, alignment and achievement of organizational goals can be realized.

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