

## **MEETING THE PORTFOLIOSTAT CHALLENGE**

Since the turn of the century, the Federal government has increasingly emphasized the need to minimize complexity and redundancy across its information technology investments. Agencies, down to the lowest decision authority, have always tended to act independently, choosing internal implementations and/or custom development before evaluating the suitability of an existing solution, but this has led to a vast proliferation of redundant IT and a contractor community that benefits from sustaining (and growing) this overprovision. The increasing cost of this approach and the increasing number of failed projects has correspondingly increased the spotlight placed on these strategies.

In a series of very specific directives, the White House and OMB initiated preliminary action to stop this trend.

- 25-Point Implementation Plan to Reform Federal IT Management
- M-10-25, Reforming the Federal Government’s Efforts to Manage Information Technology Projects
- M-11-29, Chief Information Officer Authorities
- Executive Order 13589, Promoting Efficient Spending
- Federal IT Acquisition Reform Act (FITARA)

In addition, M-12-10, Implementing PortfolioStat, was issued by OMB in March 2012 to address the high levels of waste and duplication in the Federal IT environments. The memorandum focuses across the fully IT portfolio lifecycle – budget, acquisition, implementation, and sustainment. The objectives of M-12-10 are three-fold:

- Enable agencies to have a clearer picture of where duplication exists across their respective agencies.
- Inform the budget process.
- Help agencies eliminate waste and duplication within the IT portfolio.

These objectives point to the very specific goal of reducing redundant IT through the increased use of shared services. The realization of this goal would, according to the memorandum, improve agency purchasing power by leveraging the economies of scale gained by the shared service providers.

### **What is PortfolioStat?**

PortfolioStat is a tool to assist agencies “to assess the current maturity of their IT portfolio management process, make decisions on eliminating duplication, augment current CIO-led capital planning and investment control processes, and move to shared solutions in order to maximize the return on IT investments across the portfolio”<sup>1</sup>. That is a lot of words to say that it is an IT portfolio management tool focused on driving agencies toward maximizing shared services, whether internal or external.

PortfolioStat is also a three-step process that requires agencies to work with and gain approval from the Federal CIO for their IT strategies.

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<sup>1</sup> M-12-10, Implementing PortfolioStat; Office of Management and Budget; March 30, 2012.

- **Step 1, Preparation:** Each agency will create and submit draft versions of the agency IRM Strategic Plan, Enterprise Roadmap, and Integrated Data Collection to OMB for analysis in preparation for the next step. OMB's analysis will evaluate the agency's progress and how well its IT portfolio is being managed.
- **Step 2, Session:** Each agency will meet with the Federal CIO to review the draft versions of the agency IRM Strategic Plan, Enterprise Roadmap, and Integrated Data Collection and to discuss any issues, concerns, or findings. The agency and Federal CIO will agree on actions to be taken as a result of this discussion, including incorporation of any relevant items in the agency budget submission.
- **Step 3, Post-Session:** Progress toward closing the resulting actions will be tracked and reported. If any milestones are missed, further briefings with the Federal CIO will be required.

Some agency reporting is quarterly (updates to the Integrated Data Collection), and some is annual (updates to the IRM Strategic Plan and the Enterprise Roadmap).

### PortfolioStat Challenges are Substantial

Given federal revenue shortfalls and new statutory limits on discretionary budget authority per the Budget Control Act of 2011, PortfolioStat includes rules designed to assist organizations prioritize local investments according to mission essential services. All civilian agencies are to devolve commodity investments to cloud offerings, shared service providers (SSPs), and Federal Strategic Sourcing Initiative (FSSI) offerings. Over the span of the next few years, organizations will make difficult decisions to prioritize investments between locally operated IT investments and externally obtained IT services. The core challenge to agencies is this: either the agency chooses or OMB will force choices through its budget authorization processes.

So, there will be “winners” and “losers”.

What constitutes a “winner”? To continue as an agency-operated service, each IT investment must be capable of defining and proving its value in terms of relevance to agency mission success. The principles driving investments in IT include:

- Services with compelling plans and services tied to unique mission attributes, and;
- Infrastructure services that cannot be decoupled from the mission services.

These are the IT services an agency must defend as critical to mission success.

What, then, becomes a “loser”? The OMB PortfolioStat presumes that there exist services that are sufficiently generic so as to be deemed "commodity". In PortfolioStat's first year, OMB required each agency is to produce a “Commodity IT Investment Baseline”, develop and deliver a plan to “Consolidate Commodity IT” to OMB, and then “Migrate at Least Two Duplicative Commodities IT Services” by December 31, 2012. Subsequent years require an ongoing contraction toward commodity services. These Commodity IT Services, OMB insists, should be consolidated or possibly outsourced as a means of obtaining overall federal budget efficiencies.

### The ‘Commodity’ Challenge

From the agency mission perspective, generic technology is not necessarily equivalent to “commodity” technology. The paramount Portfolio Management challenge to the agency

is in ensuring mission viability while also complying with the OMB mandate by appropriately identifying separable vs. inseparable IT investments. The CIO, CFO, and CAO therefore require a sufficiently granular view of the agency's mission services, data, and technology to enable separating the agency IT investments between "commodity" and "mission-specific". This information is not currently available in a single, handy location as a result of years of decentralized management, so it must be collected, rationalized, and categorized. Then, because one person's commodity is another person's mission-specific technology, the categorization must be evaluated, discussed, and confirmed to ensure that sensitive information or classified technology is not inadvertently pushed into the unclassified domain.

What, exactly, is "Commodity IT"? This may be more easily answered by determining what it is not. Knowing the nature of the mission dependencies on otherwise generic IT service capabilities is absolutely critical to determining what is or is not suitable for bundling up as an outsourced "commodity" service. A vertical perspective of the enterprise is used to identify the mission-specific services and their technical dependencies. This will ensure all application and infrastructure technologies essential to the operation of the agency mission services are identified and that the sensitivity of the mission to disruption in these services is documented. The result is an investment decision framework that helps ensure alignment of agency-operated IT investments and potential commodity solutions with the agency mission.

Commodity IT does not equate to outsourcing. In fact, many commodity service areas may best be organized as an enterprise service designed, deployed, and managed within the policy scope of a single agency or a community of agencies with a well-defined policy framework. Even where no sensitivity to mission concerns are noted, an agency may prefer to consolidate using a pre-existing, in-sourced provider to obtain a larger scale of operation or tighter control over service level agreements (SLAs). Where no appropriate internal service organization exists and no mission-criticality exists, the agency can expect OBM to express a strong bias toward arranging for service through an existing federal shared service provider.

### Managing Risk while Commoditizing IT

PortfolioStat has an inherent objective of reducing agency budget contributions from IT investments. OMB envisions a monotonically decreasing federal budget. This is very unlikely to be realized because replacement of direct investment in technical operations with fee for services does not automatically obtain any such savings. In fact, the near term result of such transitions may well require years of funding for continued agency operation of IT based services – in addition to the costs of reorganizing internal service interfaces for use of outsourced "commodity" services.

Once agencies do start refactoring their service capabilities as commodities, the risk profile and the level of risk to the agencies, their employees, and their customers change significantly. Some considerations of choosing a shared service provider include:

- Will we get the same or better level of service from the service provider as we expect from an internal provider?
- How much control will we have over how our business and operational requirements are met?
- How well our information will be protected from internal and external threats?

- Are management, administrative, physical, technical, and policy based controls adequate for the type and sensitivity of our information?
- Are controls maintained at a level comparable to industry best practices and Federal standards?
- If an incident does occur, what processes are in place to manage the situation, return to normal operations, inform impacted parties, and resolve the gaps that allowed the incident?

Enterprise transformation means disruption, but many Federal IT buyers and decision makers are not trained or experienced in dealing with this type of change. Deep experience in enterprise-wide risk management is needed to effectively assess the choices available to the agency, and getting there safely by dealing with the risks ultimately falls on the agency, not the Federal CIO or OMB who are driving commoditization.

### The Roadmap Says...

The unfortunate truth is that having a roadmap does not accomplish anything unless it is used and developed to assist in providing framework to realize the strategic goals of the organization.

To accomplish organizational change, certain features of an agency's governance framework must be embellished. A transition of applications from internally controlled, silo infrastructure to commodity platforms is more about the people and process than the technology. It requires a significant culture shift away from owning and operating your own data centers with computers, network, and storage to trusting someone else's stack.

The roadmap in particular must give stakeholders actionable information about point A (status quo), point B (where you intend to go), and all the identifiable points in between so they can also anticipate potential surprises. The key point here is that capabilities far beyond that needed for operations and maintenance are needed to: a) effect a transition and b) make previously uncommon decision patterns permanent. From the individual IT managers' perspectives, the key objective should be alignment of IT with business or mission objectives, with decisions founded on business case justifications and impacts tracked against quantified baselines. It is easy to say this. But, how do you actually do it?

IT governance must be prepared to navigate these challenges. A successful transition of the agency infrastructure to Commodity IT requires a reorganization of the agency's internal services to effectively interface with and leverage shared service provider offerings. The technical, financial, and governance challenges of driving the maturity of enterprise services to shared services are directly proportional to the ability for these services to be held to the terms of their service level agreements.

### Experience, Familiarity, and a Strategic Approach to PortfolioStat

CIOs, CFOs, and CAOs must support the PortfolioStat process by providing the necessary data and analysis, attending the PortfolioStat meetings, and enforcing all decisions made through the process. This is essential if the portfolio-wide review is to result in concrete actions toward tangible results by maximizing the investment in mission and support IT,

consolidating the acquisition and management of commodity IT, reducing duplication, and eliminating waste.

The federal Capital Planning and Investment Control (CPIC) process must be implemented in a manner that empowers executives in planning, monitoring, and tracking these transitions. For specific commodity service areas, the agency will need to collect data from across the enterprise to understand the current IT assets and estimated per unit costs and to work closely with OMB/GSA to understand and apply models for estimating total cost of ownership. Agency executives will then need to work closely with the Component executives responsible for mission execution to outline potential goals and strategies, evaluate potential scenarios in the cost models, and quantify potential costs, cost savings, and cost avoidance for the various scenarios for consideration in the agency budget evaluations.

### Guidance

A Federal agency is not simply a technological construction of separable parts, and even generic infrastructure services, data, and technical components can be critical to the viability of an agency's mission capabilities. It is therefore vital that the sensitivity of the mission to disruptions in even the most obviously generic resources be fully respected. Where a transformation to dependencies on an outsourced solution is warranted, we evaluate the end-to-end impacts on mission capabilities in terms of the processes, organization, and information. Our approach leverages the roadmap and engages internal and external stakeholders to navigate the path and obtain the best outcome.

First, organizations need to study their potential **commodity service areas** to provide an understanding of the current state, industry trends, potential costs and opportunities, market offerings, and evolving trends. Using white papers and strategy documents on commodity service areas, organizations should develop services taxonomies and service catalog frameworks that will help them to define their strategies for each service area.

Next, **enterprise architecture** should be used as a tool to support strategic planning and to facilitate the development of an actionable implementation roadmap for realizing significant change. Organizations need to align the six major transformational layers (strategy, organization, business, information, applications & systems, and technology) to their goals and performance objectives. A balanced scorecard can be used to map individual key performance indicators to the architecture enabling cause and effect analysis of commodity IT consolidation options.

Third, organizations should create and manage **lifecycle budgets** for financial management by tracking the budget and actuals monthly to ensure programs are on target. Federal agency budget management staffs are valuable to ensuring that financials reconcile on a monthly basis, giving IT organizations confidence in their ability to implement the approved roadmap. Reimbursable Agreements with agency components should be arranged and monitored so that programs have the proper equipment and services. This includes forecasts and various budget scenarios for the ever-changing financial climate so that the programs have enough flexibility to adapt to financial trends.

Finally, **capability maturity** is driven through a two pronged approach of program management and change management. A robust, flexible program management framework will provide actionable knowledge, resulting in enterprise transparency of the organization, technology components, analytics, and whole SDLC. All direct and indirect IT

projects and assets involved, including SLAs, data architecture, technical components, infrastructure, contracts, and software licenses, are coherently managed. As part of this, parallel tasks will need to be managed to develop policy changes, communicate requirements, establish and manage working groups, and train agency personnel. To anchor a new level of maturity, a particular set of management techniques and practices must be instilled at all levels of the enterprise. These are not typically part of traditionally managed IT environments, so adoption means driving changes to the skills, attitudes, and behaviors.

### Conclusion

As budgets shrink and IT challenges grow, organizations need to be more focused on their mission when making budget and program decisions, but the analysis of what to purchase, sustain, and retire cannot overlook the interdependencies between mission-specific and commodity IT that are found in legacy environments. There is not fast or simple solution to determine where to allocate funds, so organizations need a carefully constructed basis on which to make decisions being reported within PortfolioStat. This is an IT challenge, a budget challenge, and a people challenge that will continue to evolve as fast and unpredictably as technology does, and Federal IT organizations can be expected to rely more on shared services integrated with their internal platforms.