How PPM Leaders Can Use Zero-Based Prioritization to Refocus Their Portfolios on Strategic Business Initiatives

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Initiatives: PMO Evolution for Digital

Demands for new initiatives keep growing; however, budgets remain stable. By following the principles of zero-based prioritization, program and portfolio management leaders can rebuild their portfolios piece-by-piece and free up scarce resources for investments in new strategic business initiatives.

Overview

Key Challenges

- As organizations face tremendous pressure to cut costs and restrict budgets, demands for new initiatives keep growing.
- Circumstances may change after initiatives launch, but many organizations lack the mechanisms to ensure that their in-flight projects and other work efforts are on track to realize benefits.
- High-priority initiatives are often delayed due to a lack of funding; the absence of in-progress project valuation to changing strategy adds to this cash flow issue.
- Some organizations lack a logical, systematic way to periodically evaluate and prioritize their portfolios, which means they may continue to fund the wrong types of initiatives.

Recommendations

PPM leaders responsible for portfolio and resource management for products and projects should:

- Identify the correct stakeholders and sponsors to ensure that the portfolio links explicitly to business priorities, and communicate the reasons for the zero-based prioritization process.
- Use a framework for prioritizing initiatives based on business goals and outcomes, and categorize their portfolios into groups for mandatory, transformation, core differentiation, growth and improvement investments.
- Clear the portfolio of all current work efforts and new requests so that, conceptually, the portfolio is at zero.

- Work closely with stakeholders and sponsors to add back work efforts based on the level of priority they have given them until they reach the agreed target.
- Finalize by postponing or cutting all initiatives that didn't make it into the portfolio. Resolve any disputes by double checking that they've correctly classified all mandatory, transformational and core projects.

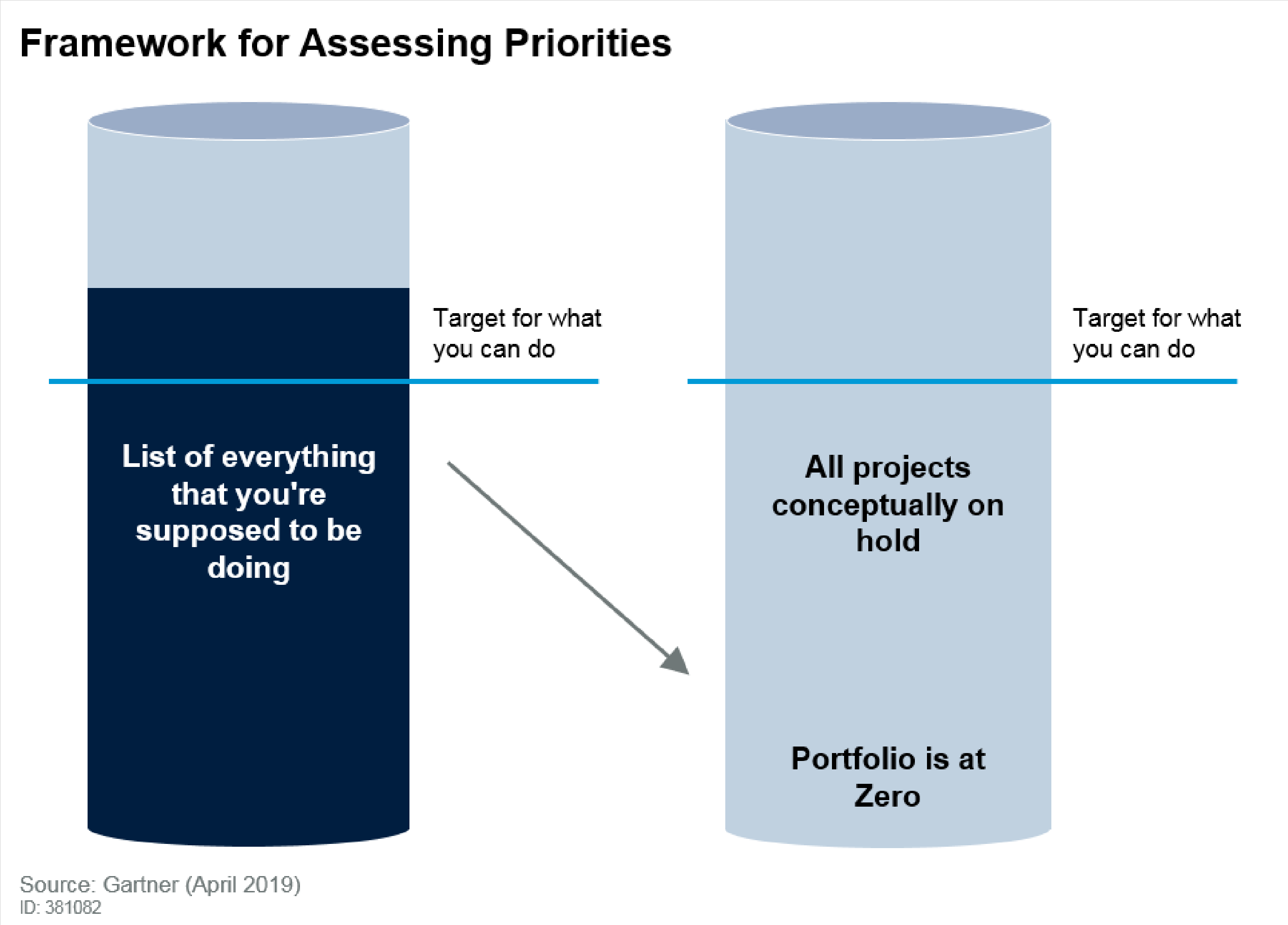
Introduction

With a finite budget for initiatives, a backlog of postponed investments in the pipeline can make it seem impossible to accept any new initiatives or requests. Many budgets are tied to existing initiatives (projects, programs, products or services) that the organization approved in the past and haven't been completed. When it's time to renew a portfolio, the traditional practice has been to take the existing investments for granted. The focus has been on the overlap between the previous portfolio and any new proposals. This is based on the logic that whatever the organization spent before is still valid. However, this focus on incremental change limits the influence that budget holders have on the total portfolio of demand.

The challenge is especially difficult when an organization is undergoing a major change in strategic direction. Many of the existing improvement initiatives are likely to relate to addressing performance problems that are no longer relevant to the new direction of the business, because planning assumptions have changed over time.

This is where you, as a portfolio leader, can step in. You can ask the tough questions that challenge existing initiatives and levels of spending to enable a thorough examination of the total portfolio. Do so using the principles of zero-based prioritization (see Note 1) in a one-off exercise that starts by putting all initiatives (i.e., projects, programs, products or services) on hold and bringing spending conceptually down to zero (see Figure 1).

Figure 1. A Framework for Assessing Priorities



This uses a zero-based budgeting model. Although zero-based budgeting is too heavy a process to repeat regularly, its basic principles provide an effective framework for a one-off reset of a portfolio. It can provide much-needed flexibility to free up resources for new strategic investments. [1]

Zero-based prioritization requires a heavy commitment of management time and attention, so use it as a one-off opportunity to reset your portfolio. Continue to use more-traditional, continuous-planning practices to fine-tune your portfolio each year.

Analysis

Communicate the Zero-Based Prioritization Approach to Stakeholders

If legacy projects fill your portfolio, and you have little flexibility to respond to new strategic demand, reset your portfolio through zero-based prioritization. Although a zero-based prioritization approach is an effective way to reset your portfolio, it isn't necessarily pain-free. It requires an extra effort from project and portfolio managers to provide the requested information, as well as time and attention from decision makers to review the proposals. However, "carefully setting goals, whether using Objective and Key Results (OKRs) such as Google or some other method — in this case, zero-based prioritization — can help a team understand what it is working toward, and how progress will be tracked and measured." [2] Have a few basics in place before starting the initiative:

- Engage the right individuals in the decision-making process. Identify the correct set of key stakeholders and ensure that they understand the challenge you face with the budget. You'll gain little buy-in for an extensive review of the portfolio if key decision makers feel there are many obvious places to cut costs and reprioritize activities. Ensure that key decision makers understand the demand pipeline is still driving more requirements into an already-full portfolio.

- Identify senior or executive business leaders who will sponsor this as a top-down business initiative. The process will raise difficult questions that challenge business decisions. The sponsor should be someone with authority and credibility among business stakeholders.

- Communicate from the start why you're taking this approach and what the expected outcomes are. Zero-based prioritization provides a logical, systematic way to reprioritize the portfolio, so communicate it as such — ensure that others don't view it as a secret item on the management agenda. Tell project managers what they'll need to do and how you'll use the information gathered. The organization as a whole should see the process as an important step in aligning strategy and execution.

Agree on the Framework and Set the Target for Spending

Before analyzing a portfolio, you'll need a framework that enables you to compare all new and existing projects in a similar way to assess their priority and business value (see Figure 2).

Figure 2. An Example of a Prioritization Framework

Example of a Prioritization Framework

Category	Type		Definition
Mandatory	Compliance, Security and Criticality	1	▪ Investments to comply with government regulations or industry standards ▪ Investments that must be made immediately or there will be significant loss of income or delays in financial reporting
Priority Development	Transformation	2	▪ Building the future business capabilities that will deliver competitive advantage for the enterprise through new business models.
	Core Differentiation	3	▪ Building the few capabilities that enable the business to differentiate itself in the market.
	Growth	4	▪ Focused on growing the business within the current business models.
Improvement	New Functionality	5	▪ Improving existing capabilities through new features and functionality
	Operational/ Capital Efficiency	6	▪ Reducing personnel costs or increasing productivity. Reduced need of hardware/software resources, providing leaner, faster, scalable systems, leveraging economies of scale
Maintenance	Maintenance	7	▪ Investments to maintain the basic service level of IT systems (bug fixes, software upgrades, etc.)

Source: Gartner (April 2019)
ID: 381082

Your organization may have an adequate framework already. It's crucial that you use the framework consistently, with the classification logic familiar to your project managers and key decision makers.

Adhere to the following best practices when developing your framework for assessing the value and priority of projects:

- Base your evaluation criteria on business drivers, such as financial performance, product quality or business project performance. The Gartner Business Value Model is a useful tool for achieving this. (See "The Gartner Business Value Model: A Framework for Measuring Business Performance" and "How CIOs Build an Integrated Portfolio View to Prioritize the Value of IT Spending.")
- Use the same financial evaluation measures that the business uses, because they will be familiar to people and easy for them to understand.

- Include an assessment of risk as one of the criteria in your framework — risks can easily reduce the expected ROI of a project.
- Use weighting across your assessment criteria to reflect relative importance.
- Assess the dependencies between programs and projects to ensure that you know how postponements or cancellations may affect a portfolio.

Regardless of the specific criteria you use to classify projects, you should identify five categories of activities. These categories will provide guidance for rebuilding the portfolio from zero:

- **Mandatory.** These projects must be done. Don't confuse these projects with "very important projects." Ensure there's a clear understanding of what a mandatory project is. Typically, mandatory projects comply with regulatory requirements, or resolve an issue that would otherwise lead to significant loss of sales, delays in invoicing or delays in financial reporting.
- **Transformation.** These projects build the future core competitive advantage of the organization. The projects in this list must link explicitly with the organization's strategy and focus on creating new markets or business models.
- **Core Differentiation.** These projects build the capabilities that enable your organization to differentiate itself in the market. Ensure that there's a clear understanding of what belongs in this category. Typically, an organization has only a few areas of core competitive advantage, so don't treat this as a catch-all category for any project that links to the strategy. Ask your business stakeholders to clarify which capabilities provide core competitive advantage, and ensure that all participants in the decision-making process share this view.
- **Growth.** These projects focus on growing the business within the current business models.
- **Improvement.** These projects seek to deliver operational or capital efficiency. This category also includes projects that provide maintenance or basic improvements.

Agree on and communicate the framework, then clarify the target portfolio spending levels. The fundamental principle of the zero-based prioritization process is to work from zero and build the portfolio up to an agreed-on target. The target will probably have been set already as part of the corporate budgeting process. Communicate the target to everyone involved at the outset, so that everyone is clear about the cutoff point after which you won't allow further activities in the portfolio.

Announce a Theoretical Stop to All Initiatives for the Next Budgeting Period

Start the zero-based prioritization review process by clearing all existing projects and activities, as well as all demand that has already made its way into the portfolio (see Note 2 for communication tips). The process won't be effective otherwise. Consider two key points:

- The act of bringing the portfolio back down to zero must focus on the “to be” portfolio. Don’t stop projects and activities that are already running — the budgeting process shouldn’t interfere with ongoing execution. Decision makers take actions on what will stop, start and continue only after the zero-based prioritization process is complete.

- Zero-based prioritization brings a fundamental change in mindset. Decision makers no longer need to justify why they’re stopping an activity. Instead, with the portfolio now empty, they must justify why an activity should be allowed back into the portfolio.

Build the Portfolio Back Up, Piece by Piece

The next step represents the core of zero-based prioritization. Assess and classify all projects based on the agreed-on framework, and build the portfolio back up from zero, piece by piece, until it reaches the target.

Once you’ve classified all projects, and they’re ready for review, arrange a series of meetings with your key decision makers to agree on what should go back into the portfolio. Decision makers must participate together in this process and commit to the decisions made at each step. Decision makers must be confident in the projects approved for the portfolio before they can agree on which projects to cut.

Follow these steps as you slowly build the portfolio back up, based on each level of priority (see Figure 3):

- **Bring forward all mandatory projects and their associated costs.** Review them and ensure that the decision makers agree on the reasons why you’ve classified each project as mandatory.

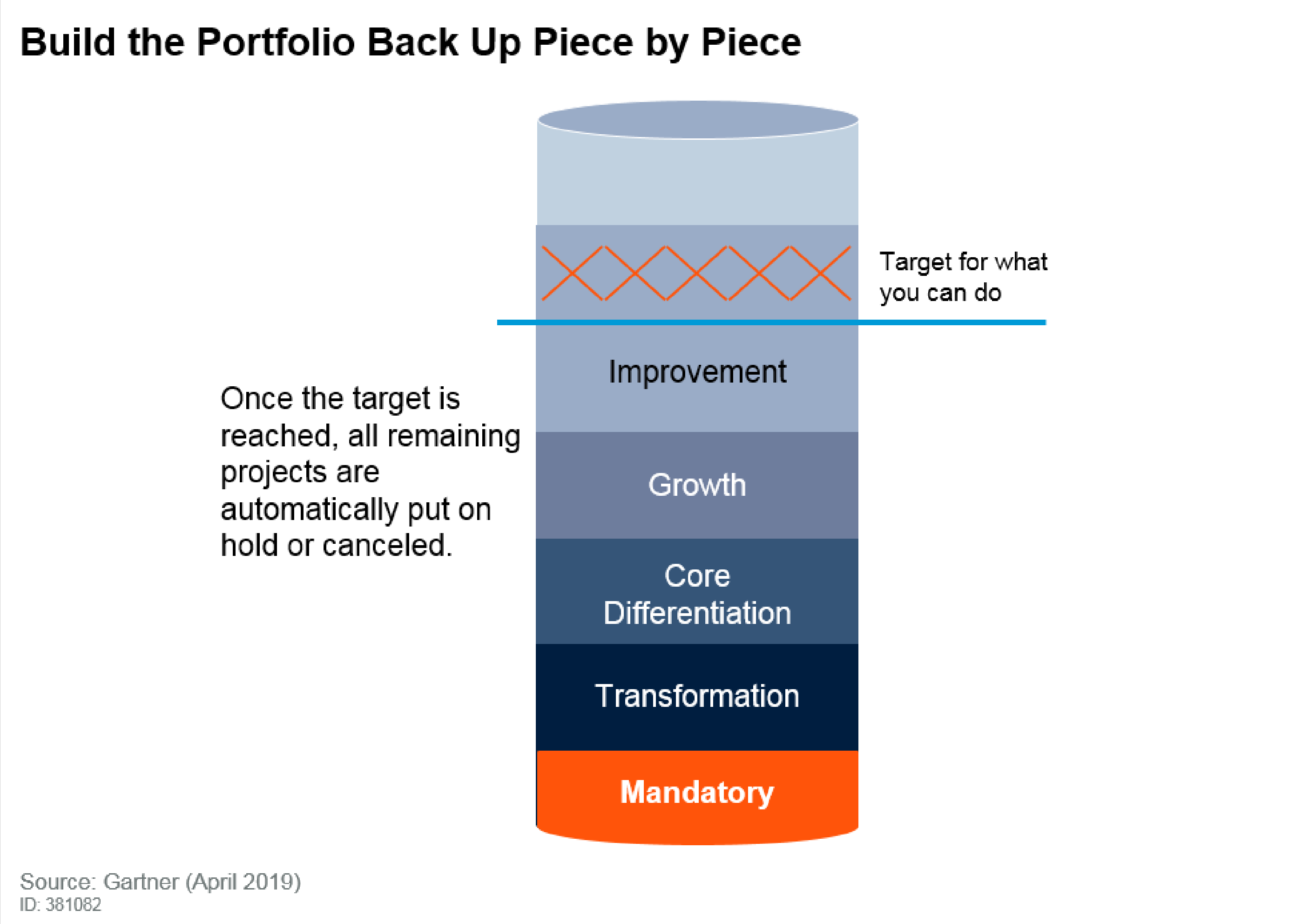
- **Add in the transformation projects.** These must derive from the organization’s strategy. They must build the organization’s future competitive advantage. As such, they’re a high priority for sustainable success.

- **Add in the core differentiation projects.** Check these against the business strategy and the agreed-on definition of the capabilities that provide core competitive advantage. Verify that each project focuses on strengthening competitive advantage. Don’t give such a high level of priority to a project that will add “nice to have” features to a core capability.

- **Add growth projects into the portfolio.** Check these against the business strategy to ensure that they explicitly deliver a strategic objective. Although these projects are important, assess them closely, using the agreed-on framework to ensure that you approve only growth priorities with measurable business value.

- **Add in the remaining improvement projects.** Because these projects target improvement in efficiency and effectiveness, assess business cases following the agreed-on framework, and rank projects in order of investment.

Figure 3. Build the Portfolio Back Up Piece by Piece



Finalize the Portfolio, and Resolve Any Disputes

Finalize the portfolio, and postpone or cut any activities that you haven't included. Ideally, at this point, you will have captured all of the must-do activities in the portfolio. So the last decision-making stage focuses on selecting the best-value strategic or improvement projects that will make it into the final, approved portfolio.

In some cases, projects that don't make it into the final portfolio may still have strong pressure from their business sponsors to continue. As a result, business sponsors will often propose funding the project from elsewhere. This could be a viable option, but it's important to consider the following risks before agreeing. This approach will create an artificial sense of reduction in spending. The reality is that the spending simply shifts from one corporate pocket to the next, and the total amount doesn't decrease. This may be an attractive short-term solution, but it doesn't address the original challenge of reducing total spending.

Projects Near Completion That Haven't Made the Portfolio

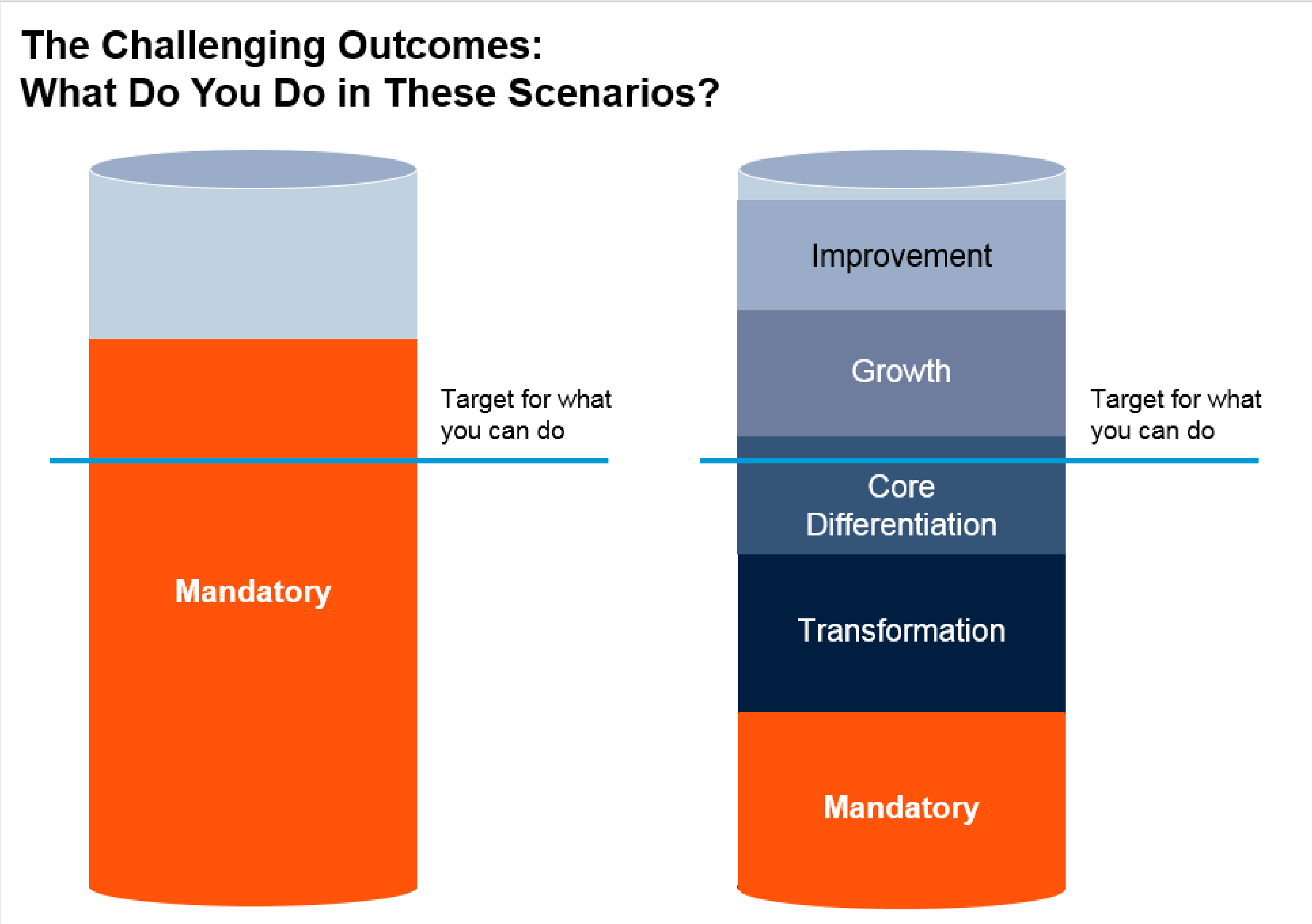
Decide what to do with projects that are near completion, but haven't made the final portfolio. It may not make sense to stop a project just before the point of benefit realization, when you've already invested considerable time and resources in it. However, it's equally important not to allow a project to continue simply because it has been going on for a long time. Circumstances may have changed since the project started. If this is the case, that change may have affected the potential for benefits, and spending even more money on the project may not be wise. Consider money spent on projects that haven't made it on to the list of priorities as a sunk cost. Decide whether to allow them to finish, even if they are near to completion, by assessing the expected benefits and the relative importance of completing the project, compared with projects already identified as high priority. It may be worth completing some projects, but you may need to stop others in favor of more-pressing investments.

Once you've added the final projects and reached the target, ask the decision makers to officially approve the renewed portfolio. When they've done so, communicate the projects that have approval to continue and the new projects you will add. Cancel or postpone until the next budgeting round all other projects and activities that didn't make the final portfolio.

Unexpected or Challenging Results

In most cases, the zero-based prioritization process will lead to logical conclusions on what to leave in the portfolio and what to take out. However, you may face some unexpected or challenging results that require you to revisit your prioritization decisions. There are two potential challenges that you may need to resolve (see Figure 4).

Figure 4. The Challenging Outcomes: What Do You Do in These Scenarios



Source: Gartner (April 2019)

Too Many Mandatory Projects

If you've classified most projects as mandatory, or if the list of mandatory activities exceeds the target, consider the following options:

- Revisit your definition of "mandatory." It may not be clear enough to highlight the activities that your organization must do now.
- Review and challenge the mandatory activities again. Do so by asking the following questions:
  - Are the activities you've categorized as mandatory all critical to do one of the following:
    - Comply with regulations?
    - Protect against loss of information assets?
    - Resolve an issue that would otherwise lead to significant loss of sales or delays in invoicing or financial reporting?
  - Do you need to do them all now, or could you defer some of them?

If your revised list of mandatory activities still exceeds the budget for the portfolio, then you probably need to revisit your cost target. You'll have a compelling case for the need to raise the cost target, with a solid set of data to justify this.

Too Many Transformation or Core Projects

If your portfolio is made up of only mandatory, transformation or core projects, and these still exceed the target, consider the following options:

- **Examine your list of transformation projects.** Ensure that they all link explicitly to the strategy for future competitive advantage. Check that these projects create the required capabilities for new business models or markets.
- **Revisit your list of core capabilities.** Ensure they bring competitive advantage to the organization. Check that they differentiate your organization in the market.
- **Review your list of core projects.** Assess whether they are all fundamental to strengthening your core capabilities. Determine whether any projects add only nice-to-have features to your core capabilities.

If your revised list of transformation or core projects still exceeds the target budget for the portfolio, you will have a compelling case for raising costs, with a solid set of data to justify this.

Assess the Merits of Extending the Zero-Based Prioritization Approach

Depending on your environment, you may want to consider extending this approach for more value in the decision-making process. Do so by creating two additional scenarios for your budget using zero-based prioritization:

- **Create a what-if plan based on 10% less of your target budget.** Decide which additional projects you would need to cut to meet this stricter target.
- **Create a plan for exceeding the target by 10%.** This will enable you to identify the projects that are next in line, in case circumstances change. It will also enable you to communicate the additional value that would come with an increase in investment to your business stakeholders.

Evidence

[1] The Return of Zero-Base Budgeting

[2] re:Work

[3] Pyhrr, Peter A. (1973). Zero-Base Budgeting: A Practical Management Tool for Evaluating Expenses. Hoboken, NJ: John Wiley & Sons

Note 1
Zero-Based Budgeting

Zero-based budgeting first appeared in the early 1970s. Organizations used it as a dramatic tool to revisit and challenge all costs during annual budgeting rounds. It began as a specific solution to a specific business challenge at Texas Instruments. However, it became most popular in the government sector, first with the U.S. state of Georgia, and then with the U.S. federal government. [3] Although zero-based budgeting proved too heavy a process to repeat regularly, its basic principles provide an effective framework for a one-off reset of a portfolio. It can provide much-needed flexibility to free up resources for new strategic investments.

Note 2
Communication Tips

Open communication is important to the zero-based prioritization process, because you'll need to engage a number of people throughout the organization to gather the necessary information. However, the message you communicate is critical to the success of the process. Make it clear that this process aims to clarify priorities for the coming budgeting period, not to cause immediate disruption to current activities. Ensure that everyone knows that you will communicate any final decisions that result from the prioritization process, and that the resulting actions will be properly planned and managed. People must view this as a rational decision-making process, based on facts, rather than a secretive management exercise with a hidden agenda.

Document Revision History

Use Zero-Based Prioritization to Throw the Reset Switch on Your IT Demand Portfolio - 21 October 2011

Recommended by the Authors

6 Practices for Effective Portfolio Management

5 Best Practices for PPM Leaders to Categorize Demand for Intake Efficiency

Use Adaptive Governance Styles for Portfolio Management

Getting Priorities Straight

The Gartner Business Value Model: A Framework for Measuring Business Performance

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PPM Leaders Should Adapt Key Portfolio Processes to Assist Project-to-Product Transition

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Real Prioritization Requires Context to Yield Real Results