

The Value to Hospitals of IT Portfolio Management



Just as investors use portfolio management to ensure that their resources are appropriately balanced among various types of investments, so too should hospital IT leaders use IT portfolio management to direct their allocation of project resources.

Given the inevitable push and pull between IT demands and resources, IT portfolio management allows health care organizations to invest in projects offering the greatest potential return. In that sense, it's similar to how astute investors strategically oversee their retirement portfolios to try to achieve a desired future benefit.

Why Portfolio Management?

With an increased demand in health care for IT projects, reduced medical reimbursements and the movement toward value-based purchasing, hospitals should implement effective IT portfolio management to maximize their expenditures and long-term benefits. Rather than careening from major project to project without overarching direction, IT portfolio management offers leaders an informed, deliberate and strategic approach to resource allocation that also neatly correlates to the entirety of an organization's projects (both IT and non-IT-related).

IT portfolio management can also help organizations more effectively address unexpected IT demands and expenses. For example, in recent years, hospitals have had to significantly increase their spending on IT security projects. It's not unusual for some health care organizations to now need to devote one-fourth or more of their

capital budgets toward IT security. That's a potential budget-buster for any size organization, but particularly so for smaller hospital systems, which may need to implement different approaches to dealing with security risks.

In fact, IT portfolio management gives health care leaders a better opportunity to deal with a host of IT-related expenditures and dynamics unique to health care, including:

- **“Must-do” projects** – Health care has a higher percentage of “must-do” IT projects, such as those related to regulations, compliance and security, than do other industries.
- **Value complexity** – Besides offering a balanced financial return, IT projects in health care must often address several other value-based attributes, such as quality improvement, patient safety and satisfaction and outcome improvement.
- **Complicated project risks** – Culturally, hospitals have a difficult time assessing project risks. For example, hospital administrators don't like to believe that they can't succeed with every IT project or that some projects are riskier than others.
- **Long-overdue IT needs** – Unlike other industries that are ahead of or at least even with the IT curve, hospitals have historically lagged behind in IT spending; now, hospitals need to spend significant sums upgrading their IT infrastructure including replacing old servers, upgrading workstations, desktops and laptops, installing new cabling and wiring for new clinics or location changes, and addressing outdated or overcrowded data centers.

Creating a Manageable Portfolio

In their seminal book, *The Real Business of IT: How CIOs Create and Communicate Value*, authors Richard Hunter and George Westerman introduce readers to “portfolio-based thinking” regarding IT projects, as opposed to the non-strategic process practiced by many organizations. Hunter and Westerman categorize portfolio-based thinking into three specific areas:

1. **Run** – these are investments essential to run the business
2. **Grow** – these investments help the business grow operationally and/or financially
3. **Transform** – with these investments, an organization can potentially get into new markets, products and customers to potentially create transformative change

In health care organizations, typically about 30 percent of IT investments fall within the “run” category, 30% into “grow” and 40 percent into “transform.”

When creating a manageable IT portfolio, suggested steps to follow include:

1. **Create (or update) an IT roadmap and budget** – Annually assemble a roadmap and budget based on pending

capital projects, and also include current operating projects. The portfolio should include (in priority order): capital projects, operating projects and projects that will continue from the current year to future years. This ensures that the IT organization has the right resources (people, technical infrastructure, space, etc.) in order to deliver on its portfolio of projects. This process should start about 4 or 5 months before the start of the new fiscal year and be completed in enough time such that the new IT roadmap is locked and loaded and communicated before the fiscal year begins. From there, you can then:

- **Create multiple portfolios** – Create individual IT portfolios for all major areas of the organization (e.g., clinics, administration, and analytics) with multiple subcommittees that follow standard processes and definitions to oversee each of these portfolios. Each sub-committee should follow processes for new project requests (called the project intake process) and evaluate the new requests before submitting the formal requests to IT. For instance, there should be an analytics sub-committee that oversees the portfolio of analytics projects.

- **Assess organizational impact** – As you create each individual IT portfolio, don't forget to assess the organizational impact and whether the organization can take on the amount of change needed. For instance, create a matrix that lists impacted departments across months and then identify the number of (system) changes by department for each month. Strive to limit the number of changes in a department to one major change per quarter. Adjust the project schedule if one department has more change than what it can handle.

2. Design a project intake process – Develop a process for handling for new project requests. This process should include steps to: 1) validate that the new project request is valid; 2) perform an IT assessment (based on project size, scope and schedule); 3) determine the project value and ROI (defined by the organization) and weighted by project risk; 4) make a go/no-go/defer decision regarding the project; and 5) gain formal IT governance approval to proceed. Each organization will have a slightly different process for processing new project requests.

3. Develop an IT roadmap change control process – Given the inevitability of change, develop an IT roadmap change control process to manage changes to the roadmap throughout the year.

4. Monitor projects – Determine when escalation or intervention is required in order to keep projects on track. Ensure adequate ongoing communications to stakeholders and the IT Steering Committee.

Ensure an IT steering committee is in place to oversee the entire portfolio management process. The IT steering committee approves the allocation of funds and typically represents the final recommendation or approval of the IT spend (assuming CEO, CFO and/or board approval). This committee should have cross-organization representation, to ensure that all areas of the organization are represented in making IT decisions. They should meet regularly (monthly is recommended). Key stakeholders such as physicians must have representation on the IT steering committee in order to provide the proper level of input and feedback.

Additional Recommendations

In addition to the fundamental action steps listed above, other actions to take when establishing an IT portfolio include:

- **Pre-establish criteria for when a project should be stopped** – Projects in trouble that should be stopped present an opportunity to save on project costs. According to the Standish Group, an international IT research advisory firm, the three most critical criteria for project success, are executive sponsorship, emotional maturity (of those working on the project) and user engagement. Subtracting any one or all of these criteria will significantly diminish the likelihood of project success. According to the Standish Group’s 2015 Chaos Report, which annually chronicles the status of organizations’ IT efforts, 17 percent of health care providers’ IT projects were canceled, 30 percent succeeded and 53 were “challenged” (over time, over budget, or lacking original features/details).
- **Leverage portfolio management software to help manage your portfolio management processes** – These can include software for creating the IT roadmap, dashboards for providing visibility into health of the portfolio, and workflow software for managing the new project request intake process.
- **Develop a communication approach and plan for effectively communicating the IT roadmap and related processes** – Perform a stakeholder assessment and identify the best ways to communicate the roadmap. For example, department heads might only want to view the changes that impact their departments. Similarly, physicians typically only want to be told about roadmap changes that impact their daily work. Physician portals can be a good way to communicate these changes. Also, make sure to communicate roadmap changes regularly (the recommended frequency is quarterly) and more often when major roadmap changes occur. Don’t forget to communicate project completions and successes to your team!
- **Develop a strong working relationship and partnership with the business and clinical areas** – To avoid process- and communication-related issues from occurring, make sure that business and clinical department directors know how the IT roadmap is developed and the major steps for submitting new project requests. Department leaders should also know the key inputs and outputs from the portfolio management process, and how they can find out the status of each of their requests. Don’t waste valuable time communicating unnecessary internal processes to these directors if they don’t have an interest in knowing the IT business steps in detail.

Conclusion

Hospitals that plan their IT investments based on non-strategic processes are really not far afield from non-strategic investors who invest their funds without an overarching plan. These organizations typically plan their IT investments based on such criteria as internal politics, intuition and other non-business-centric approaches.

By contrast, a portfolio approach to health care IT management takes into account the IT infrastructure, security and the need/potential for system upgrades. It also focuses on the business and customer value of their IT investments. This approach allows organizational leaders to more wisely select the best and most cost-effective IT

investments.