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Preemptive action
Mitigating project portfolio risks in the financial services industry

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Preface

Preemptive action: Mitigating project portfolio risks in the financial services industry is an Economist Intelligence Unit research report, sponsored by Oracle. The findings and views expressed in the report do not necessarily reflect the views of the sponsor. The author was Sarah Fister Gale and the editor was Katherine Dorr Abreu.

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Executive summary

Volatile markets, weak demand and regulatory scrutiny have combined to create an environment in which financial services firms must execute projects flawlessly, particularly when those projects involve regulatory compliance. With many developed economies still struggling and regulatory requirements such as stress tests, Basel III and the Dodd-Frank Act demanding changes in financial services companies' operations, the pressure to successfully execute projects is understandably high.

This demand for success has forced many firms to moderate their appetite for risk. In an effort to avoid depleting assets or damaging their brand, they are focusing solely on high-priority initiatives, such as meeting regulatory targets, while ignoring growth opportunities. When they do embark on new initiatives, the margin of error is smaller than ever.

Companies with the ability to execute their strategies more effectively than their competitors, however, have more opportunities. These organisations reduce the risk of failure by making every stakeholder accountable for project results, identifying risks of failure early in the project development process and responding to problems as they arise – before precious resources are wasted. Because these firms understand how to identify and deal with indicators of failure early in the planning process, they can safely invest in higher-risk initiatives, such as launching new products and acquiring other firms, without putting their reputations or bottom lines in jeopardy.

The experiences of financial services companies with mature project management capabilities that enable them to identify and deal with project failure provide valuable lessons to organisations with ineffective strategies. These include:

- **Ideally, projects veering towards failure should be killed in the planning stages, not during implementation**. Organisations that can identify signs of failure early on waste less money, deliver more projects on time and on budget, and make better use of resources.

- **Executive stakeholders must be held accountable for project failures**. When their success is tied to the success of their projects, executives will deal with problems as they arise, and ensure that their projects deliver the expected return on investment (ROI).

- **Effective communication is essential in identifying signs of failure and finding solutions**. In mature organisations, cross-departmental conversations occur among stakeholders to identify concerns at every milestone. This ensures that risks of failure are identified and dealt with early in the process.

- **Regulatory projects are the top priority in the financial services industry today.** Managing these must-do initiatives requires a balance between flexibility and adherence to process. While some organisations pour an endless stream of resources into these projects when they founder, mature project management organisations are able to refocus scope and add or adjust resources as needed to keep their projects on track.
- **Effectively managing project failure opens doors to new opportunities.** Financial services firms that understand how to reduce the chance of project failure can take calculated risks to expand their market share, acquire competitors and gain a competitive advantage over their peers.

A challenging environment

Financial services companies, especially in the US and Europe, have felt the impact of a weakened economy and a stricter regulatory environment. Aware of the risks that failed projects can pose to their reputation, capital reserves and even to their survival, they are treading more carefully than ever with new endeavours. Many of those that survived the recession still face grim conditions in the coming years, as they continue to suffer losses on loans and securities and struggle to comply with new capital rules. Long-term viability depends on their ability to invest wisely in projects, meet regulatory targets and avoid the costly and public failures that brought down so many of their peers.

Many firms today are operating under stress, which only exacerbates the challenges of managing projects effectively, says Antonio Nieto-Rodriguez, head of transversal portfolio management at BNP Paribas Fortis, a part of the French global bank, BNP Paribas, which had total assets of US$3trn (€2.1trn) in 2009. “In financial services, like other industries, crisis requires change, and change leads to more projects,” he says. “But it becomes difficult for executives to track and control so many projects. That’s when failures occur.”

Fear of failure has forced many firms to become more risk-averse, focusing efforts on low-risk projects to protect assets and meet regulatory requirements, while avoiding new markets and risky endeavours. This environment of fear has given firms with more mature risk and project management processes a competitive advantage, says Brett Pitts, senior vice-president and group manager for Internet portfolio management at Wells Fargo, a US-based bank with US$1.2trn in assets in 2009. “If you have a mature discipline that is geared towards managing risks and planning contingencies, you don’t have to be unduly conservative in your pursuit of business opportunities,” he says.

Such maturity requires a combination of formal risk management strategies that identify failure early in the process, and intrepid leaders who are willing to make difficult decisions, even if that means shutting down significant projects. Unfortunately, the combination of rigour and strong leadership are tough to find in this industry. Historically, financial services executives have allowed failing projects to trudge along, absorbing resources that would have been better used elsewhere.

The global financial meltdown that knocked many economies to their knees also destroyed many once-strong and respected organisations, but survivors learned valuable lessons, says Leroy Ward, executive vice-president at ESI International, a corporate training and consultancy firm based in Washington, D.C. “Resources today are scarce and expensive, and financial services organisations understand that they cannot afford to let projects with questionable value linger.” They must recognise failure as early in the lifecycle as possible and act to minimise its impact.

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Leroy Ward, executive vice-president at ESI International

Recognising failure

There is no single definition of project failure. From lack of timeliness to not delivering required functionality, failure differs for each organisation. However it is defined, one thing is clear: projects fail at an alarming rate. The global, biannual Chaos Survey conducted by an IT consultancy based in Boston, Massachusetts, Standish Group International, shows that only 32% of IT projects came in on time and on budget in 2009 and 44% came in over budget, late, or with fewer features and functions than required. Twenty-four percent failed completely, being cancelled prior to completion or delivered, but never used.

A certain amount of failure may be inevitable. But how well financial services firms deal with those failures depends on the maturity of their project and risk management processes.

"At a high level, you have to be able to recognise project failure, see the indicators, and understand the risks that trigger it," says Adrian McKnight, executive general manager of group partnering for Suncorp, a financial services firm in Brisbane, Australia, with US$81.6bn (A$95.3bn) in total assets in 2009. "The key to doing that is making sure you have an internal system to catch failures fast, so you don't continue to pour resources into them."

Mature organisations rely on a collection of methods to mitigate the risk of failure on projects. They include:

- **Making a single executive stakeholder or steering committee responsible for identifying issues and resolving them as they arise**. "When project roles and responsibilities are clearly defined, those in charge are more likely to deal with problems up front," says Mr McKnight. At Suncorp, that means project managers are expected to communicate problems to stakeholders as they arise, and stakeholders are held responsible for determining how to solve them. "The sponsors are fully accountable for their individual projects," says Mr McKnight. "It's not a committee making the tough decision, it's an individual. That's where the buck stops."

- **Aligning project deliverables with specific business goals**. Project plans must clearly state the business drivers behind the investment, and project reviews have to include evaluations of whether the project and business goals are still aligned, says Mr Pitts. "A project that doesn't deliver business value is a failure," he says, "regardless of whether it is delivered on time or on budget."

- **Creating a plan that identifies risks to the success of the project during the planning stage, then reviewing the plan at every milestone**. While many financial services firms do a good job of assessing risks in the planning phase, only mature project management organisations continue to consider those risks throughout the project lifecycle, and act on events when they occur, says Mr Pitts. It is not enough to identify risks; the risks must be addressed.

- **Developing clear progress reporting requirements that dictate exactly which data are recorded and how they will be reviewed**. Project managers must be compelled to report accurate project progress and results as part of the measurement of project success and executives have to be diligent in their review process for this system to work. “Good data make it much easier to decide whether to cancel a project, but only if the data are accurate,” says Mr Nieto-Rodriguez. “If people don’t use existing tools, don’t input data, or they exaggerate numbers, it becomes more difficult to make informed decisions.”
- **Dismantling the culture of blame**. A corporate culture that accepts project failure will use its resources more effectively. “Failure happens for a variety of reasons and casting blame too quickly creates an unproductive culture,” says Mr McKnight. When blame is removed from the process, executives are more likely to react to failures as they occur and learn from the mistakes. Organisations can eliminate a culture of blame by encouraging people to communicate their concerns to top leaders, publicly acknowledging those who identify problems and demonstrating over time that project teams will not be punished for failure, as long as they look proactively for solutions.

Good idea, bad timing

“Fail early and fail cheap,” is the motto at Suncorp, a financial services firm in Brisbane, Australia. If a project is floundering, the project’s executive sponsor is expected to identify the problem and make a decision about what to do before major resources are wasted.

Adrian McKnight, executive general manager of group partnering, faced this situation in 2008 with a large, year-long project to update the company’s project portfolio management systems. The initiative would change the way business units managed project resource allocation, planning and prioritisation, requiring more cross-functional teamwork and decision-making.

The initial project idea was approved, and the project moved to the planning stage. That involved building a team and defining a more detailed view of the scope, timeline, budget and goals of the project.

To be successful, the project required changes to the way roles were structured, and how work was managed across divisions. During the planning stage, however, the team discovered that many of the divisions were already dealing with several other large change initiatives. “It became clear to us that some parts of the business were not ready for the degree of change necessary for this project to be successful,” says Mr McKnight.

As part of the planning phase, the core team, including stakeholders and subject matter experts, came together to discuss the viability of the project and likelihood of success before moving it forward. The meeting addressed change-management issues.

“It was not so much an analysis as a dialogue,” Mr McKnight says. “The business unit managers raised concerns about the level of change required, and how it would fit into the broader change that had already been undertaken, and the current project roadmaps.”

Although everyone agreed the project was a good idea, that dialogue led to the decision that the time was not right to roll it out. The project was then suspended.

“Individual projects often look good on their own, but taking a step back allows you to see the implications in the context of other projects, and other business factors that need to be considered,” Mr McKnight says. “You’ve got to understand how your project fits into the larger organisation.”

The team was comfortable with the amount of change this project required in isolation, but when they put it in the broader context of the portfolio, they recognised the high likelihood of failure. The project lasted only a few weeks, and the team was moved to new activities. “I am confident that assigning them to other projects made them more productive, and we received a higher return on the investment for their work,” Mr McKnight says.

When projects cannot fail

How organisations with the right leadership and methodologies in place deal with project failure depends largely on what the project was intended to accomplish. When a failing project is identified, a decision must be made to shut it down, shelve it or fix it, and that decision is rarely in the hands of the project team.

In the financial services industry, critical projects usually centre on regulatory compliance or merger and acquisition (M&A) integrations, which are too important to fail. Missing regulatory targets can cause a bank to lose its licence and permanently damage its reputation among investors. Failing smoothly to integrate the operations of a failed bank can have unacceptable economic and political fallout. “The consequences of failure on these projects are dire,” says Mr Pitts. “It’s not even vaguely an option.”

The number of regulatory projects will continue to grow as the financial services industry accommodates increasing demand for better and more transparent risk and capital management accountability. A March 2010 Financial Services Survey from PricewaterhouseCoopers, a global professional services firm, revealed that UK financial services firms expect to spend significantly more money on regulatory projects in 2011 than they did in 2010. They consider stricter regulations as one of the primary causes for their loss of competitiveness.

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Brett Pitts, senior vice-president and group manager at Wells Fargo

Regulatory demands have also increased the trend towards consolidation in the financial services industry, and according to analysts at global financial services firm, Credit Suisse, the M&A surge will continue for at least three more years. Smaller banks in particular have struggled to survive growing regulatory and competitive pressures.

As of October 20th, 132 US banks had failed in 2010 alone, according to the Federal Deposit Insurance Corporation (FDIC). In every case, another financial institution took over so that customer assets were preserved, leading to a flurry of last-minute and highly technical integration and absorption projects that had to be executed secretly and in a matter of days. “It’s a very intense environment from a project management standpoint,” says Mr Ward.

When such projects flounder, the only recourse is to funnel additional funds and man-hours towards their recovery – even if it means pulling people from more successful endeavours with better ROI projections. As a result, precious resources are drawn away from projects that could add value to the organisation by increasing revenue or expanding market share.

The pressures under these circumstances are intense. Mr Pitts has been leading several integration projects following Wells Fargo’s US$15.1bn acquisition of Wachovia in late 2008, which is among the

Death of a merger

Fortis Bank was close to bankruptcy in 2008 after a combination of risky initiatives and the financial crisis depleted the company's assets. One of these initiatives was the failed merger with a Dutch banking giant, ABN Amro, says Antonio Nieto-Rodriguez, head of transversal portfolio management at BNP Paribas Fortis in Belgium.

Mr Nieto-Rodriguez was head of post-merger integration with the Fortis portfolio management team leading the consortium takeover of the bank in 2007. At the height of the merger, valued at US$1.8bn (€1.2bn), he oversaw a portfolio of 1,000 projects grouped into 130 different programmes, implemented by more than 6,000 people. "Everything in the merger was moving very fast. We had put together our best people to work in the integration, and honestly no one was expecting such an abrupt end," he says.

A series of political and competition requirements imposed by regulators delayed the integration. This, combined with the global credit crisis, reduced Fortis's liquidity and ultimately caused the merger to fail. In a matter of months, Fortis went from being the 20th-largest business in the world by revenue, with a market value of US$67.3bn (€45.7bn), to the verge of bankruptcy.

In 2008 the Dutch government was given ownership of ABN Amro and in 2009 Fortis was sold to a French bank, BNP Paribas, for US$19.8bn. "The failure caught us all by surprise," Mr Nieto-Rodriguez says. "I think that even those closest to the executive team did not know we were in such big trouble."

Much of the problem with the Fortis-ABN Amro merger was the overall integration approach. "It was much too collaborative, instead of directive," says Mr Nieto-Rodriguez. "We wanted to hear the opinion of everybody around the table so that we could get their buy-in, and build on best practices to create a state-of-the-art bank. However, looking back, I believe this approach made us lose critical time."

largest financial services integrations in history. "The last two years have reshaped our perspective on project and programme management," Mr Pitts says.

Both banks were full-service institutions, offering loans, credit lines, wealth management, brokerage and dozens of other services to millions of customers. "The consequences of getting something wrong on this were significant, and there were tremendous complexities and risks," he says. "It required robust project management mechanics, and transparency was critical."

Wells Fargo's project management process includes a formal failure identification system that is triggered as soon as a project starts to show signs of trouble. If an issue is raised, the project leader brings it to the project sponsor, who enacts an immediate stakeholder review to determine whether the business case for the work is still intact.

If the answer is "no", the project sponsor can shut the project down until the company can come up with a viable plan to fix it or scrap it. That strategy takes significant planning by a cross-functional team of stakeholders, including legal and regulatory experts, risk managers, technical leaders and customer representatives.

"You can't make risk management up as you go," Mr Pitts says. "It's a significant effort and can be a complicated process. But by pulling those conversations to the front, we ensure that once a project is under way there is minimal likelihood of failure downstream, where the implications can be grimmer."

Opportunity and risk

In light of the credit crisis, the financial services industry has dramatically reduced its appetite for high-risk projects, as a way to minimise further disasters. Although focusing on low-risk, must-do initiatives may reduce the incidence of failures, it also means that companies may be missing opportunities for growth. Mr Nieto-Rodriguez agrees: "There are very few investments being made in new acquisitions or new products today. But if you want to be the biggest or the best in the industry, you still need to take risks."

Part of the challenge is that the financial services industry is not confident in its ability to conduct risk management at a project or portfolio level. Yet good risk management is an inherent part of the project management process. When project leaders lack this key skill, they expose the entire portfolio of projects to unexpected risks.

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Antonio Nieto-Rodriguez, head of transversal portfolio management at BNP Paribas Fortis

A March 2009 survey conducted by the Economist Intelligence Unit shows that, while 87% of financial services executives say they are "very well" or "well" positioned to identify and monitor credit risk, only 67% are equally confident about their ability to perform enterprise risk management. Therein lies the inconsistency of the industry's unbalanced approach to risk in their project and portfolio management process, says Mr Nieto-Rodriguez. "Financial services companies spend millions of dollars on risk management, but it's all about the credit we give to individuals and businesses," he says. "There's not enough time spent looking at the risks we take on strategic projects."

That attitude is beginning to change, however. The survey also shows that 88% of executives believe it is "critical" or "important" to broaden the discussion of risk across business functions, and 80% say risk management should be seen as a business enabler, rather than a loss preventer. To achieve this, organisations need to examine their approach to project and portfolio management, and implement better strategies to capture risk data across the portfolio of projects, interpret their impact on the organisation and make immediate decisions based on the information. It is only by consistently performing all three activities as part of the project and portfolio management process that they can track and manage risks as they arise.

They also need better strategies for evaluating opportunity costs (the value of something given up to pursue something else). Every organisation has a list of projects awaiting funding and resources. The decision to keep or kill a failing project must include an assessment of the value of using those resources to pursue another initiative. "Opportunity cost is a big consideration," says Mr McKnight. "You can't just look at the initial investment when you consider project failure. You have to look at the whole cost of the project and where that money might be better used."

This is a valuable lesson for other financial services firms as they examine their own project management processes and methods for identifying failure and managing risk in the future. "There is nothing that will stop a less mature organisation from undertaking high-risk projects, but without good risk management there is a much higher likelihood that bad consequences will occur," says Mr Pitts.

Conclusion

Financial services companies that are facing uncertain times should consider how to make leaders accountable for identifying and shutting down poorly performing initiatives, focusing resources on projects that promise the greatest return. This will enable them to pursue more opportunities—with the accompanying risks—while minimising the impact of failures that can have significant consequences for their reputation and capital. But this will require executives to take a hard look at how they manage projects and track risks, so that they can more effectively determine whether an initiative is worth continuing.

To do that, firms should:

- **Identify individual stakeholders who are solely responsible for tracking the progress of projects and deciding whether they should continue**. As is the case at Suncorp, when individual sponsors are accountable for project results, they are more likely to shut down those that are not delivering results.
- **Implement go/no go reviews during planning and throughout the project to be sure projects align with business goals before major resources are released**. "A project that doesn't deliver the business value that was intended is a failure," says Mr Pitts. "Organisations need to be really clear on exactly what problem they're trying to solve, what constitutes an effective solution and what they're willing to pay, in time and resources, to obtain that solution." With that clarity, determining whether a project is failing becomes much easier.
- **Create a corporate culture that demands project data be consistently captured and reviewed at the highest levels of the organisation**. "Effective project management gives you more time to adjust and minimises the likelihood of unintended consequences. However, it's not effective if the organisation thinks of it as purely a project management function," says Mr Pitts. "It needs to be cultivated at the organisational level."
- **Conduct regular reviews of the project portfolio to be sure the firm does not overextend its level of risk, and is progressing towards business objectives**. This is especially true for financial services companies, in which projects tend to be shorter and deadlines extremely tight, says Mr Ward. He suggests the industry could learn a lesson from the way large pharmaceutical companies assess project risk and failure. "When they review their development portfolio, they don't ask 'should we kill this project?' they ask 'why shouldn't we kill this project?'" he says. "It's an entirely different perspective, and if financial services firms took that approach, they'd kill more projects faster, and spend their resources a lot more effectively."

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