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Evolution of project prioritization and management in US investment banks

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Abstract

In the last eleven years, investment banks have seen a surge in the hiring of project and portfolio managers of varying levels of seniority, especially in the technologically focused markets division. The main reason has been the inability of existing governing entities within business and technology to simultaneously control timing, scope and cost of complex technological and even non-technological initiatives, in an ever-evolving technological landscape. The rapid evolution of financial regulations over the first seven years, followed by a change of focus in the last four years on major growth initiatives within investment banks, vis-à-vis diminishing technology budgets have contributed to a rise in complexity of project management and prioritization.

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1. Introduction

Before the time of the Great Recession and even immediately afterwards, investment banks with their siloed technology departments preferred project managers wearing dual hats of business analysis and project management. This was primarily due to the fact that the banks, which were yet to jump on to the AGILE/SCRUM bandwagon had adopted a model of heavily outsourcing Information Technology development resources, while retaining business analysts onshore in New York, London, Zurich and Frankfurt. The business analysts would often work very closely with traders, middle office and operations within markets divisions to gather requirements and also manage IT deliverables by not only working directly with offshore developers but also perform project management duties of stakeholder governance, risk management and sundry "change-the-bank" support.

2. Emergence of Technology Portfolio Management (2009-2014)

Post 2009, a relatively high fear index (which was later, partially mitigated by the Federal Reserve driven, quantitative easing fueled, low interest rate environment[1]) coupled with rigorous regulatory oversight[2]ensured that investment bank profit margins tanked. Making matters worse was the fact that investment banks were fined a substantial percentage of their Tier-1 capital in the years leading away from the Great Recession for multiple transgressions[3], resulting in a major drawdown on technology investment. Resulting cuts in annual bonus compensation contributed to long-tenured employees with deep knowledge of legacy systems and embedded business logic, leaving in droves. Various technology divisions within large investment banks had traditionally acted in silos, especially on decisions involving technology upgrades and moving away from antiquated infrastructure. There had also been a non-existence of a unified technology vision across markets, further exacerbating the problem[4]. In a new era with tighter technology budgets within investment banks, it was largely acknowledged by C-level executives that the siloed technology

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administration model could not continue for two reasons: lack of cost effectiveness and the need to quickly adopt new technology, in order to stay competitive in a largely technology-driven, lower margin environment, differentiated by volume.

As a result, largely around 2013, banks started investing in the idea of “technology portfolio management”. Portfolio management as defined by the Project Management Institute is *an approach to achieving strategic goals by selecting, prioritizing, assessing, and managing projects, programs, and other related work based upon their alignment and contribution to the organization's strategies and objectives*[5]. This approach assumed tantamount importance in banks, who were now ready to move from a pre-2009 model of approving budget spends on every initiative attested to by a front office trader or portfolio manager to a new model which involved a much smaller cash pool and getting every project proposal presented to a very senior central committee, who would then weigh its benefits, strategic alignment and cost alongside that of other existing proposals in the annual technology pipeline.

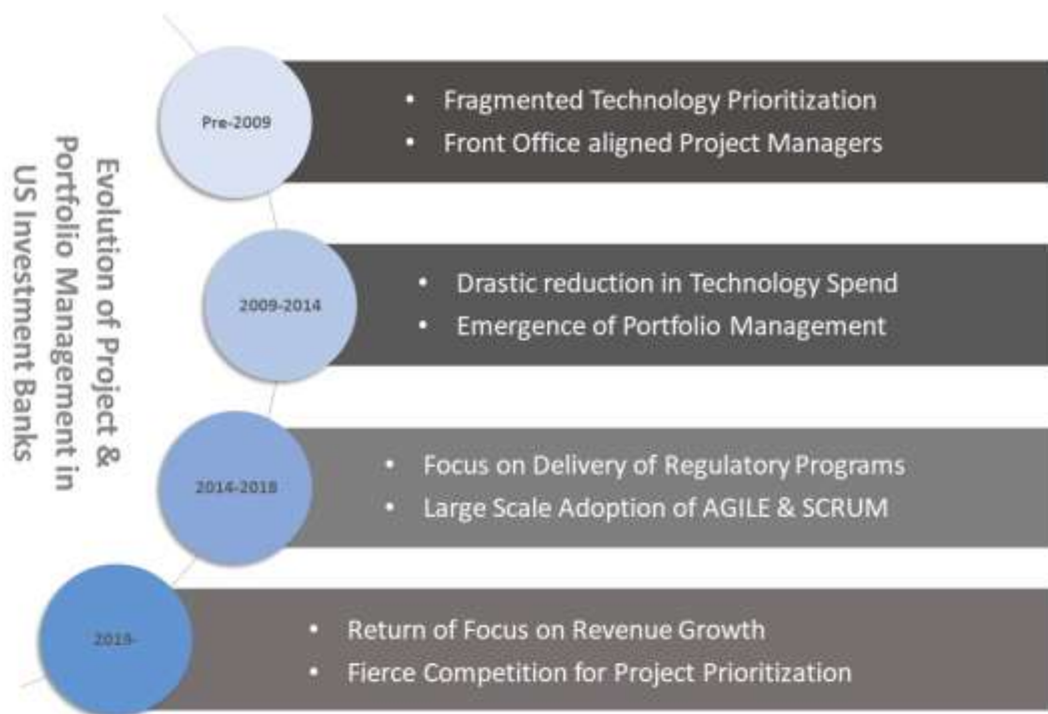

Figure 1. *Evolution of Project & Portfolio Management in US investment banks*

3. Impact of implementation of financial regulations (2014-2018)

Between 2014 and 2017, most investment banks were saddled with the burden of becoming compliant with overarching regulatory initiatives including but not limited to Dodd-Frank, MIFID and Basel III initiatives within derivatives, equities and fixed income products and markets, both within the US and Europe, in order to be able to continue to do business[2]. As a result, technology portfolio management was moved to a more centralized function for better alignment with the regulatory landscape and accrual of execution efficiency across the firm. In these formative years for a centralized technology portfolio management function, involved in regulatory initiatives, the traditional hybrid model of business analyst and project manager was largely discarded in favor of more specialized roles.

One of the top drivers of the decision to move to more specialized project management roles was a conscious attempt by investment banks to adopt AGILE and SCRUM methodologies in technology development[6][7]. This was largely responsible for reversing some of the pre-2014 outsourcing decisions, as more developers and technical architects were hired in onshore locations to work on scopally fluid and time-sensitive initiatives. Specialized product owners were hired to perform the role of a traditional business analyst, thereby making the hybrid role of a project manager and business analyst, largely redundant.

Under the Trump administration, post 2017, the technology prioritization landscape for investment banks has changed again as several regulatory announcements have either been shelved or postponed[8], leading to more capital availability for allocation to growth initiatives. This has made the technology portfolio

management function within investment banks even more critical as major growth initiatives are now competing for existence with regulatory programs and often winning. The portfolio manager's function is now more demanding in terms of not only capturing financial projections of competing initiatives but also tracking benefits of approved initiatives to ensure alignment of projected and realized ROI.

4. Return of major growth initiatives (2019 -)

As growth initiatives (cost saving/strategic/revenue generating) continue to crowd out regulatory initiatives in investment banks, technology stacks aligned to business lines are coming up with detailed business cases with quantitative benefit assessments, making it rather challenging for portfolio management committees to prioritize one project over another, given competing hierarchies of purpose[9].

Project managers and business heads have employed several qualitative and quantitative models, existing in literature for prioritizing initiatives. An alternate approach, based on a "theme-based" project prioritization technique[10] is discussed below:

The theme-based approach involves creation of a list of themes for a given year such as revenue growth, customer retention and M&A. Businesses are then asked to generate project ideas, based on prioritized themes and come up with a list of projects which have the highest net present value, accounting for value from cohesive synergies across technological stacks.

The projects with the highest NPV within each theme can then be picked for prioritization. For projects straddling multiple themes, the score can be appropriately adjusted.

This approach has some advantages over and above traditional methods of project prioritization:

1) It lends cohesiveness to the alignment of technological initiatives and the overall vision of investment banks.

2) It allows comparison of projects with disparate and unquantifiable outcomes.

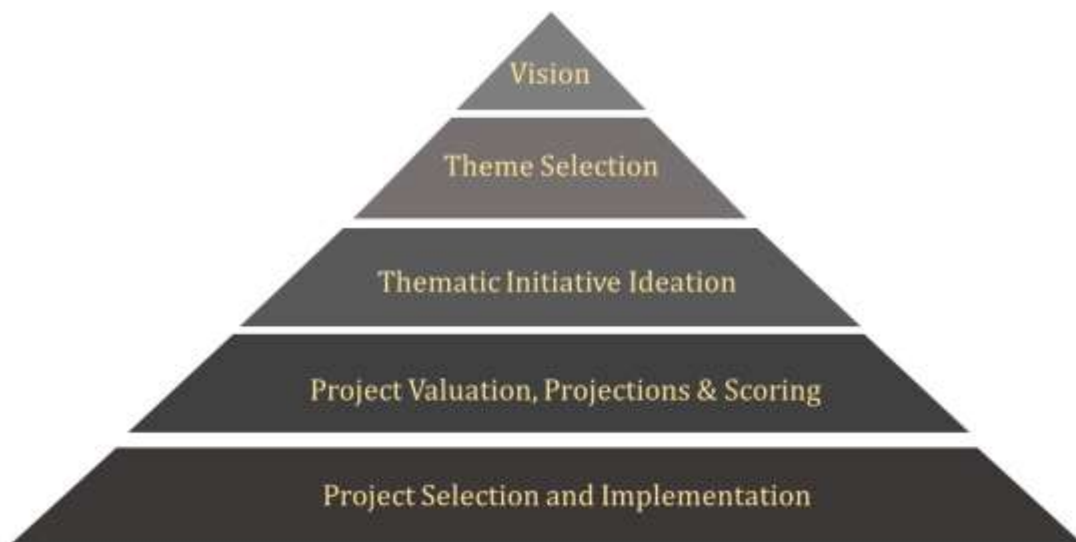

Figure 2. *Theme-based portfolio & project prioritization*

5. Conclusion

Investment Banks are emerging from a decade of financial regulatory reform and drastically reduced technology spending. This has led to a very rapid and strategic emergence of project and portfolio management functions. Project managers are no longer aligned only to business units and trading desks. A centralized portfolio function oversees all strategic initiative prioritization, execution and governance. This has to led to more effective value creation, vision alignment, risk management and corporate governance. On the other hand, project prioritization and portfolio management has become far more complex because of a constantly evolving corporate vision against a challenging regulatory backdrop.

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