

BEYOND THE BUBBLE

Portfolio management before it had a name — how the crisis forced investment discipline

A Practitioner's Perspective on Technology Investment After the Dot-Com Collapse



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1. The Morning After

Eighteen months ago, technology budgets were limitless. Every initiative with a dot-com suffix received funding. Business cases were written on the back of napkins — or not written at all. The logic was simple and intoxicating: the internet changes everything, first movers win, and the cost of not investing is greater than the cost of getting it wrong.

The Nasdaq peaked at 5,048 on the tenth of March 2000. As of this writing it sits below 1,700. The companies that were going to change the world — Pets.com, Webvan, Boo.com, eToys — are gone. The venture capital that funded them has evaporated. And the large organisations that chased the same fever, launching e-commerce platforms and internet strategies and digital ventures with minimal scrutiny, are now staring at the wreckage and asking a question that should have been asked two years ago: what did we actually get for the money?

The answer, in too many cases, is not much. Half-built platforms. Abandoned joint ventures. Technology partnerships with companies that no longer exist. And a profound loss of credibility for anyone in the organisation who carries the word "technology" in their title.

2. What the Crisis Revealed

The dot-com collapse did not create new problems. It exposed problems that had been there all along, masked by rising markets and executive enthusiasm.

The central problem is this: most large organisations have never had a coherent way of thinking about their technology investments as a whole. Individual projects are approved through business cases. Individual programmes have sponsors and steering committees. But the aggregate — the total collection of technology investments, their interdependencies, their collective risk profile, their combined demand on shared resources — has been largely invisible.

The Nasdaq did not destroy the case for technology investment — it destroyed the case for technology investment without discipline. What organisations need now is not less investment in technology, but a fundamentally different way of deciding where that investment goes.

During the boom, this did not matter. When budgets are growing at twenty per cent per annum and the board is enthusiastic about anything internet-related, there is no pressure to choose. The portfolio — though nobody called it that — could absorb contradictions, redundancies, and outright failures without consequence, because the tide was rising fast enough to cover them.

Now the tide has gone out. Technology budgets have been cut by thirty to fifty per cent across most sectors. The board, burned by write-downs on failed e-commerce ventures, is demanding rigour that it never asked for when the money was flowing. And the organisations that never built the capability to evaluate technology investments collectively are discovering that cutting a budget is not the same as managing a portfolio.

3. The Accidental Portfolio Managers

What is happening in practice, across organisation after organisation, is a form of portfolio management that nobody designed and nobody planned. It is being invented on the fly by CIOs, programme directors, and finance teams who have been told to reduce spending by a third while maintaining the systems that keep the business running.

The process, such as it is, typically follows a pattern:

1. The emergency inventory. Someone — usually the CIO's office — attempts to catalogue every active technology initiative. This is harder than it sounds. Many projects were approved through departmental budgets and never registered centrally. Others were started as pilot programmes and grew without formal authorisation. The inventory exercise itself is revealing: most organisations discover they are running thirty to fifty per cent more technology initiatives than they thought.
2. The crude triage. With the inventory in hand, each initiative is sorted into one of three categories: must continue (regulatory compliance, contractual obligation, systems that will fail without intervention), should continue (clear business benefit, senior sponsorship, significant sunk cost), and can stop (discretionary, speculative, or duplicative). The categorisation is done quickly, often in a single meeting, based on the judgement of whoever is in the room.
3. The political negotiation. The triage produces a list of candidates for cancellation or deferral. What follows is a negotiation between the technology function and the business units, each defending their projects with varying degrees of evidence and volume. The outcome depends less on the merits of the investment than on the seniority and persistence of the sponsor.
4. The residual portfolio. What survives this process is not an optimised set of investments. It is whatever was not successfully killed. The portfolio is defined by subtraction, not by design.

This is recognisable to anyone who has been through the exercise in the past year. It is also, plainly, inadequate.

4. What Is Missing

The ad hoc approach fails in three specific ways that matter.

4.1 No View of Interdependency

Technology investments do not exist in isolation. An ERP implementation depends on data migration from legacy systems. A customer-facing web application depends on middleware that is being replaced. A regulatory compliance programme requires infrastructure that is shared with three other projects. When cuts are made project by project, these dependencies are invisible. The result is a portfolio in which individual decisions are rational but the collective outcome is incoherent — projects are funded that depend on other projects that have been cancelled.

The Y2K programmes of 1998 and 1999 demonstrated this vividly. Organisations that treated Y2K remediation as a portfolio — mapping dependencies, sequencing work, managing shared resources — completed the work on time and on budget. Those that treated it as a collection of independent projects spent more, finished later, and found critical gaps at the last moment. The lesson was there. Very few organisations applied it to their broader technology investment decisions.

4.2 No Framework for Risk

The business case model evaluates each investment on its own projected returns. It does not ask how the risk profile of the total portfolio changes when a new investment is added. A financial portfolio manager would never evaluate a single equity position without considering its correlation with the rest of the portfolio. Yet technology investment committees do precisely this, approving or rejecting each proposal in isolation.

“We evaluate technology investments the way a novice gambler evaluates bets — one at a time, with no view of the aggregate exposure and no strategy for the session as a whole.”

The consequence is portfolios that are heavily concentrated in a single risk category. During the boom, the concentration was in speculative internet ventures — high potential return, high uncertainty, and almost no diversification. Now the pendulum has swung to the opposite extreme: portfolios dominated by maintenance, compliance, and cost reduction, with almost no investment in capability that will matter in two or three years. Neither extreme is sound.

4.3 No Mechanism for Reallocation

Perhaps most critically, the current approach treats investment decisions as permanent. A project that is funded in the annual budget cycle runs until it is complete or until a crisis forces a review. There is no routine mechanism for reallocating resources from underperforming investments to emerging opportunities — or for stopping an initiative that is delivering less than expected and redirecting the funding.

The venture capital industry, for all its excesses during the bubble, has always understood this. Investment is staged. Funding is conditional on evidence. Capital moves from what is not working to what is. Large organisations have none of these mechanisms for their internal technology investments. The annual budget cycle is a one-way valve: money flows in, but it does not flow out until the project ends or the money runs out.

5. Building the Discipline

The elements of a genuine technology portfolio discipline are not mysterious. They are borrowed from financial portfolio management, from venture capital practice, and from the emerging literature on strategic investment under uncertainty. What is missing is not the theory but the organisational will to apply it.

Current Practice	Portfolio Discipline
Project-by-project approval	Portfolio-level investment strategy
Annual budget cycle	Quarterly rebalancing with stage-gate reviews
Business case as entry ticket	Business case as living hypothesis, updated with evidence
Risk assessed per project	Risk assessed across the portfolio — concentration, correlation, exposure
Sunk cost protects failing projects	Reallocation from underperformers is routine
Cuts driven by crisis	Prioritisation driven by strategic alignment and evidence

The starting point is visibility — a single, maintained view of every technology investment, its cost, its stage, its dependencies, and its expected contribution. This sounds elementary, and it is. The fact that most organisations still do not have it tells you how far the discipline has to travel.

The second requirement is a risk framework that operates at portfolio level. Not the project-level risk registers that programme managers maintain — these are necessary but insufficient. What is needed is an aggregate view: how much of the portfolio is committed to maintenance versus growth? How much is concentrated in a single technology platform, a single vendor, a single business unit? What is the organisation's exposure if the two largest programmes both fail?

The third requirement is a governance mechanism that enables reallocation. Quarterly portfolio reviews that ask not "is each project on track?" but "is this still the right set of investments?" The authority to stop a funded initiative and redirect the resources must exist, and it must be exercised without stigma. In the current climate, stopping a project is seen as failure. In a portfolio discipline, it is seen as good capital management.

6. The Opportunity in the Wreckage

The dot-com collapse has done something that no amount of management theory could have achieved: it has made technology investment discipline a board-level concern. For the first time, senior executives outside the technology function are asking hard questions about how technology money is spent, what it produces, and whether the organisation is getting adequate return.

This is an opportunity that will not last. When growth returns — and it will return — the pressure to invest will rebuild, the scrutiny will relax, and the temptation to fund everything that sounds promising will reassert itself. The organisations that use this window to build genuine portfolio management capability will be better positioned for the next wave of technology investment, whatever form it takes. Those that treat the current

austerity as a temporary inconvenience, to be endured until normal service resumes, will repeat the same mistakes with different technologies and different acronyms.

The discipline we need does not have a settled name yet. Some call it IT portfolio management. Others frame it as technology investment governance. The label matters less than the substance: a systematic, evidence-based approach to deciding where technology money goes, and the organisational courage to reallocate when the evidence changes.

We are building this discipline now, under pressure, from necessity rather than choice. That is not the ideal way to build anything. But it may be the only way that large organisations ever learn.