

Why Project Managers Need to Understand the Strategic Management Process

- Changes in the organization's mission and strategy
 - Project managers must respond to changes with appropriate decisions about future projects and adjustments to current projects.
 - Project managers who understand their organization's strategy can become effective advocates of projects aligned with the firm's mission.

2-3

Projects and Strategy

- Mistakes caused by not understanding the role of projects in accomplishing strategy:
 - Focusing on problems or solutions with low strategic priority.
 - Focusing on the immediate customer rather than the whole market place and value chain.
 - Overemphasizing technology that results in projects that pursue exotic technology that does not fit the strategy or customer need
 - Trying to solve customer issues with a product or service rather than focusing on the 20% with 80% of the value (Pareto's Law).
 - Engaging in a never-ending search for perfection only the project team really cares about.

2-4

The Strategic Management Process: An Overview

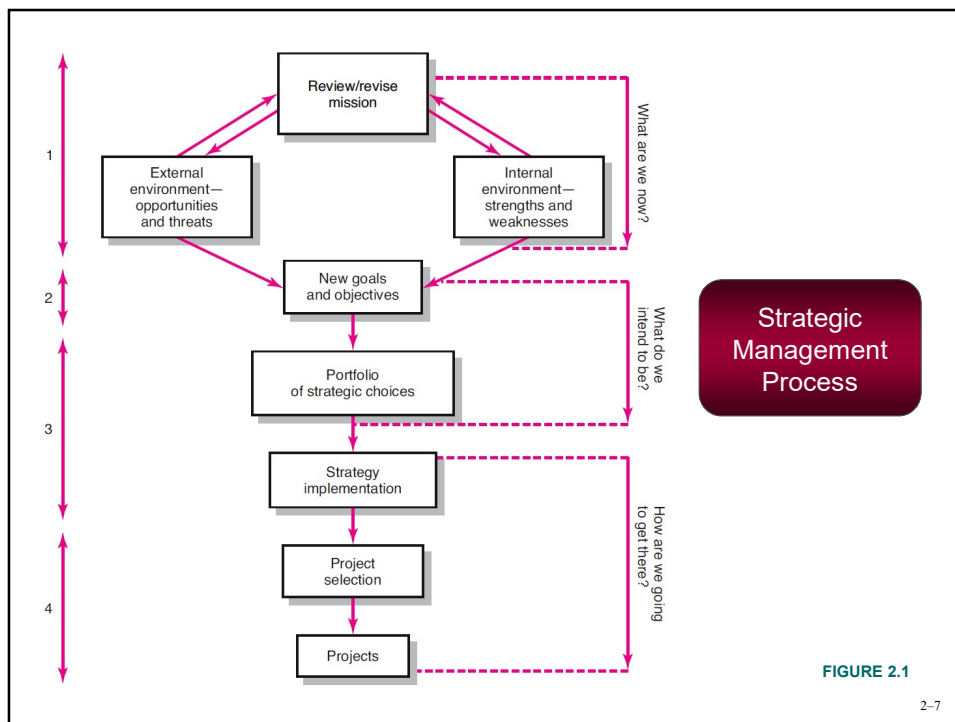
- Strategic Management
 - Requires every project to be clearly linked to strategy.
 - Provides theme and focus of firm's future direction.
 - **Responding to changes** in the external environment—environmental scanning
 - **Allocating scarce resources** of the firm to improve its competitive position—internal responses to new programs
 - Requires strong links among mission, goals, objectives, strategy, and implementation.

2-5

Strategic Management Process Activities

1. Review and define the organizational mission.
2. Set long-range goals and objectives.
3. Analyze and formulate strategies to reach objectives.
4. Implement strategies through projects

2-6



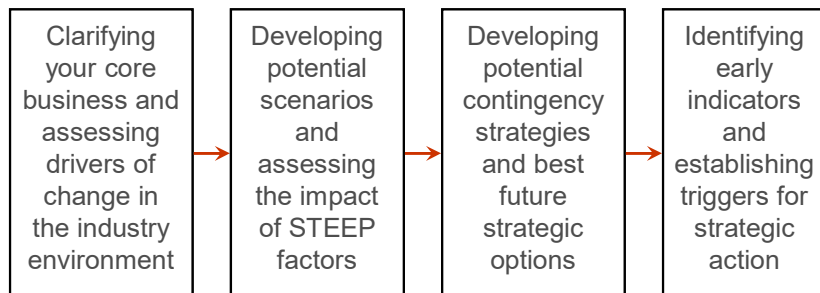
Characteristics of Objectives

- S Specific** Be specific in targeting an objective
- M Measurable** Establish a measurable indicator(s) of progress
- A Assignable** Make the objective assignable to one person for completion
- R Realistic** State what can realistically be done with available resources
- T Time related** State when the objective can be achieved, that is, duration

EXHIBIT 2.1

2-8

Scenario Planning: A Supplement to Traditional Strategic Planning



2-9

Project Portfolio Management Problems

- **The Implementation Gap**
 - The lack of understanding and consensus on strategy among top management and middle-level (functional) managers who independently implement the strategy.
- **Organization Politics**
 - Project selection is based on the persuasiveness and power of people advocating the projects.
- **Resource Conflicts and Multitasking**
 - Multiproject environment creates interdependency relationships of shared resources which results in the starting, stopping, and restarting projects.

2-10

Benefits of Project Portfolio Management

- Builds discipline into the project selection process.
- Links project selection to strategic metrics.
- Prioritizes project proposals across a common set of criteria, rather than on politics or emotion.
- Allocates resources to projects that align with strategic direction.
- Balances risk across all projects.
- Justifies killing projects that do not support strategy.
- Improves communication and supports agreement on project goals.

EXHIBIT 2.2

2-11

A Portfolio Management System

- Design of a project portfolio system:
 - Classification of a project
 - Selection criteria depending upon classification
 - Sources of proposals
 - Evaluating proposals
 - Managing the portfolio of projects.

2-12

Portfolio of Projects by Type

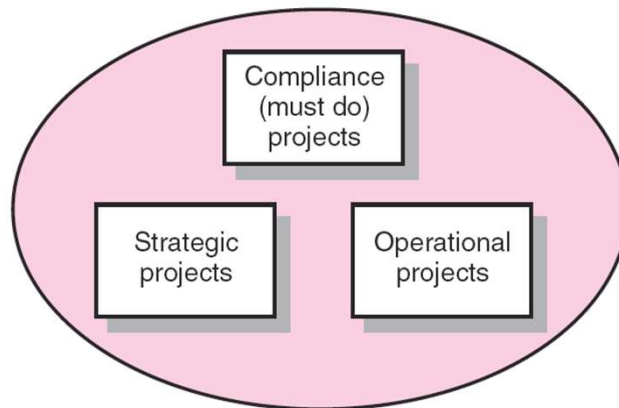


FIGURE 2.2

2-13

A Portfolio Management System

- Selection Criteria
 - **Financial:** payback, net present value (NPV), internal rate of return (IRR)
 - **Non-financial:** projects of strategic importance to the firm.
- Multi-Weighted Scoring Models
 - Use several weighted selection criteria to evaluate project proposals.

2-14

Financial Models

- The Payback Model

- Measures the time the project will take to recover the project investment.
- Uses more desirable shorter paybacks.
- Emphasizes cash flows, a key factor in business.

- Limitations of Payback:

- Ignores the time value of money.
- Assumes cash inflows for the investment period (and not beyond).
- Does not consider profitability.

2-15

Financial Models (cont'd)

- The Net Present Value (NPV) model

- Uses management's minimum desired rate-of-return (discount rate) to compute the present value of all net cash inflows.
- Positive NPV: project meets minimum desired rate of return and is eligible for further consideration.
- Negative NPV: project is rejected.

$$\text{Project NPV} = I_0 + \sum_{t=1}^n \frac{F_t}{(1+k)^t} \quad \text{where}$$

I_0 = Initial investment (since it is an outflow, the number will be negative)

F_t = net cash inflow for period t

k = required rate of return

2-16

Example Comparing Two Projects Using Payback Method

	A	B	C	D	E	F	G	H	I	J	K	L	M
1													
2													
3													
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22													

EXHIBIT 2.3a

2-17

Example Comparing Two Projects Using Net Present Value Method

	A	B	C	D	E	F	G	H	I	J	K	L	M
1													
2													
3													
4													
5													
6													
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EXHIBIT 2.3b

2-18

Nonfinancial Strategic Criteria

- To capture larger market share
- To make it difficult for competitors to enter the market
- To develop an enabler product, which by its introduction will increase sales in more profitable products
- To develop core technology that will be used in next-generation products
- To reduce dependency on unreliable suppliers
- To prevent government intervention and regulation

2-19

Multi-Criteria Selection Models

- Checklist Model
 - Uses a list of questions to review potential projects and to determine their acceptance or rejection.
 - Fails to answer the relative importance or value of a potential project and doesn't allow for comparison with other potential projects.
- Multi-Weighted Scoring Model
 - Uses several weighted qualitative and/or quantitative selection criteria to evaluate project proposals.
 - Allows for comparison of projects with other potential projects

2-20

Sample Selection Questions Used in Practice

Topic	Question
Strategy/alignment	What specific strategy does this project align with?
Driver	What business problem does the project solve?
Success metrics	How will we measure success?
Sponsorship	Who is the project sponsor?
Risk	What is the impact of not doing this project?
Risk	What is the project risk to our organization?
Risk	Where does the proposed project fit in our risk profile?
Benefits, value, ROI	What is the value of the project to this organization?
Benefits, value, ROI	When will the project show results?
Objectives	What are the project objectives?

EXHIBIT 2.4

2-21

Sample Selection Questions Used in Practice

Topic	Question
Organization culture	Is our organization culture right for this type of project?
Resources	Will internal resources be available for this project?
Approach	Will we build or buy?
Schedule	How long will this project take?
Schedule	Is the time line realistic?
Training/resources	Will staff training be required?
Finance/portfolio	What is the estimated cost of the project?
Portfolio	Is this a new initiative or part of an existing initiative?
Portfolio	How does this project interact with current projects?
Technology	Is the technology available or new?

EXHIBIT 2.4 cont'd

2-22

Project Screening Matrix

Criteria Weight	Stay within core competencies	Strategic fit	Urgency	25% of sales from new products	Reduce defects to less than 1%	Improve customer loyalty	ROI of 18% plus	Weighted total
	2.0	3.0	2.0	2.5	1.0	1.0	3.0	
Project 1	1	8	2	6	0	6	5	66
Project 2	3	3	2	0	0	5	1	27
Project 3	9	5	2	0	2	2	5	56
Project 4	3	0	10	0	0	6	0	32
Project 5	1	10	5	10	0	8	9	102
Project 6	6	5	0	2	0	2	7	55
⋮								
Project <i>n</i>	5	5	7	0	10	10	8	83

FIGURE 2.3

2-23

Applying a Selection Model

- Project Classification
 - Deciding how well a strategic or operations project fits the organization's strategy.
- Selecting a Model
 - Applying a weighted scoring model to bring projects to closer with the organization's strategic goals.
 - Reduces the number of wasteful projects
 - Helps identify proper goals for projects
 - Helps everyone involved understand how and why a project is selected

2-24

Project Proposals

- Sources and Solicitation of Project Proposals
 - Within the organization
 - Request for proposal (RFP) from external sources (contractors and vendors)
- Ranking Proposals and Selection of Projects
 - Prioritizing requires discipline, accountability, responsibility, constraints, reduced flexibility, and loss of power.
- Managing the Portfolio
 - Senior management input
 - The priority team (project office) responsibilities

2-25

Project Proposal Form	
Date: Jan 22, 2000	Proposal # 11 Sponsor J. Moran
Project classification?	
Strategic	Infrastructure <input checked="" type="checkbox"/> Compliance
What business problem does the project solve?	
Increase customer satisfaction through kiosk and web site for bus, streetcar, and fast rail Enhance driver and traveler safety Hyperlink to: AVL-tri-met.org	
How does this project align with our organization strategy?	
Increase customer ridership through better passenger travel planning & scheduling decisions Faster response to accidents	
What are the major deliverables of the project?	
GPS vehicle tracking system, internet access, Schedule screen,	
What is the impact of not doing this project?	
Not meeting ridership goals	
What are the three major risks for this project?	
Cost overruns Integration of fast rail, bus, and streetcar systems Hacking system	
How will we measure success?	
Increased ridership Customer satisfaction Meeting budget and schedule	
Yes <input checked="" type="checkbox"/> No <input type="checkbox"/> Will this project require internal resources?	
Yes <input checked="" type="checkbox"/> No <input type="checkbox"/> Available?	
What is the estimated cost of the project? \$ \$10 million	
How long will this project take? 22 Weeks	
Oversight action: Accept <input checked="" type="checkbox"/> Return <input type="checkbox"/>	
Signature XXXXXX	Date: Oct. 7, 2000

A Proposal Form
for an Automatic
vehicular tracking
(AVL) Public
Transportation
Project

FIGURE 2.4A

2-26

What are the three major risks for this project?			
1. <i>Federal incentives curtailed</i>			
2. <i>Land use injunction</i>			
3. <i>Energy price decrease</i>			
What is the probability of the above risks occurring?	0 to 1.0 none high	Risk 1 above	.30
		Risk 2 above	.20
		Risk 3 above	.10
What is the impact on project success if these risks do occur?	0 to 10 none high	Risk 1 above	1.0
		Risk 2 above	.30
		Risk 3 above	.10
RESOURCES AVAILABLE? <input checked="" type="checkbox"/> Yes <input type="checkbox"/> No			

CURRENT PROJECT STATUS	
Start date <u>2/22/xx</u>	Estimated finish date <u>9/25/xx</u>
STATUS: <input type="checkbox"/> Active <input type="checkbox"/> On-hold	
UPDATE: <i>Start in 3 weeks</i>	

PRIORITY TEAM ACTION: <input checked="" type="checkbox"/> ACCEPTED <input type="checkbox"/> RETURNED	
<input type="checkbox"/> DISCOVERY—project not defined	<input checked="" type="checkbox"/> Duplicate to: <u>Dat Nguyen</u>
<input type="checkbox"/> OPERATIONAL—proposal not a project	Project # <u>676</u>
<input type="checkbox"/> NEED MORE INFORMATION—to prioritize project	<input type="checkbox"/> COMPLETED project

Risk
Analysis for
500-Acre
Wind Farm

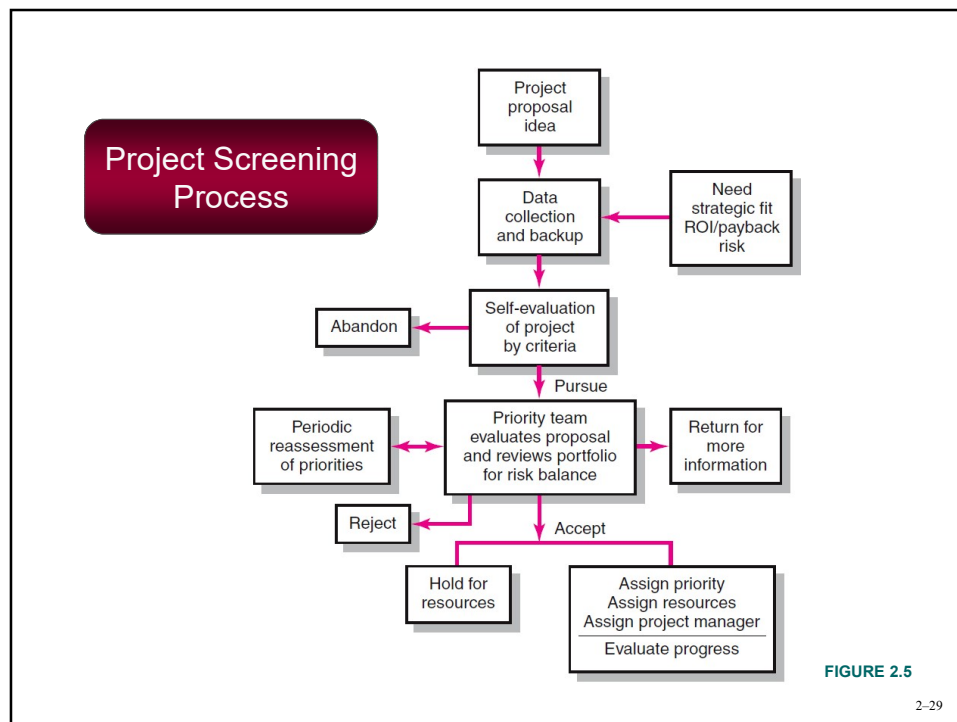
FIGURE 2.4B

2-27

Managing the Portfolio

- Senior Management Input
 - Provide guidance in selecting criteria that are aligned with the organization's goals
 - Decide how to balance available resources among current projects
- The Priority Team Responsibilities
 - Publish the priority of every project
 - Ensure that the project selection process is open and free of power politics.
 - Reassess the organization's goals and priorities
 - Evaluate the progress of current projects

2-28



Priority Analysis

Must objectives		Must meet if impacts	Project number			
			...26	27	28	29
All activities meet current legal, safety, and environmental standards		Yes-Meets objective No-Does not meet obj N/A-No impact	n/a			
All new products will have a complete market analysis		Yes-Meets objective No-Does not meet obj N/A-No impact	yes			
Want objectives	Relative Importance 1-100	Single project impact definitions	Weighted score	Weighted score	Weighted score	Weighted score
Provides immediate response to field problems	99	0 ≤ Does not address ① = Opportunity to fix 2 ≥ Urgent problem	99			
Create \$5 million in new sales by 20xx	88	① < \$100,000 1 = \$100,000–500,000 2 > \$500,000	0			
Improve external customer service	83	0 ≤ Minor impact 1 = Significant impact ② ≥ Major impact	166			
↓						
Total weighted score						
Priority						

FIGURE 2.6

2-30

Project Portfolio Matrix

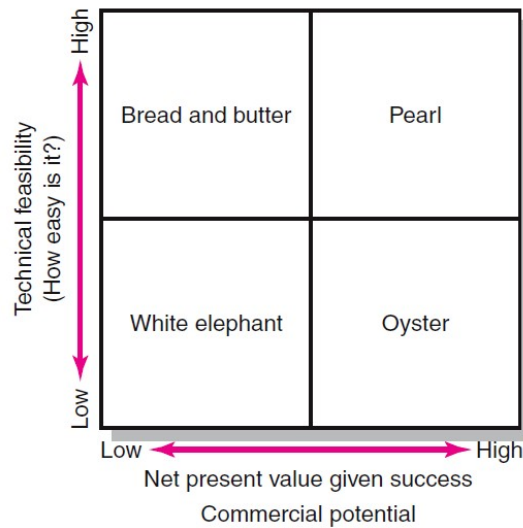
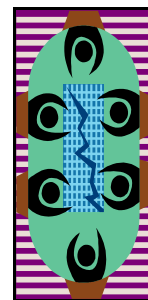


FIGURE 2.7

2-31

Project Portfolio Matrix Dimensions

- **Bread-and-butter Projects**
 - Involve evolutionary improvements to current products and services.
- **Pearls**
 - Represent revolutionary commercial opportunities using proven technical advances.
- **Oysters**
 - Involve technological breakthroughs with high commercial payoffs.
- **White Elephants**
 - Showed promise at one time but are no longer viable.



2-32

Key Terms

Implementation gap

Net present value

Organizational politics

Payback

Priority system

Priority team

Project portfolio

Project screening matrix

Project sponsor

Sacred cow

Strategic management process

2-33