

Chapter Two

Organization Strategy and Project Selection

Why Project Managers Need to Understand Strategy

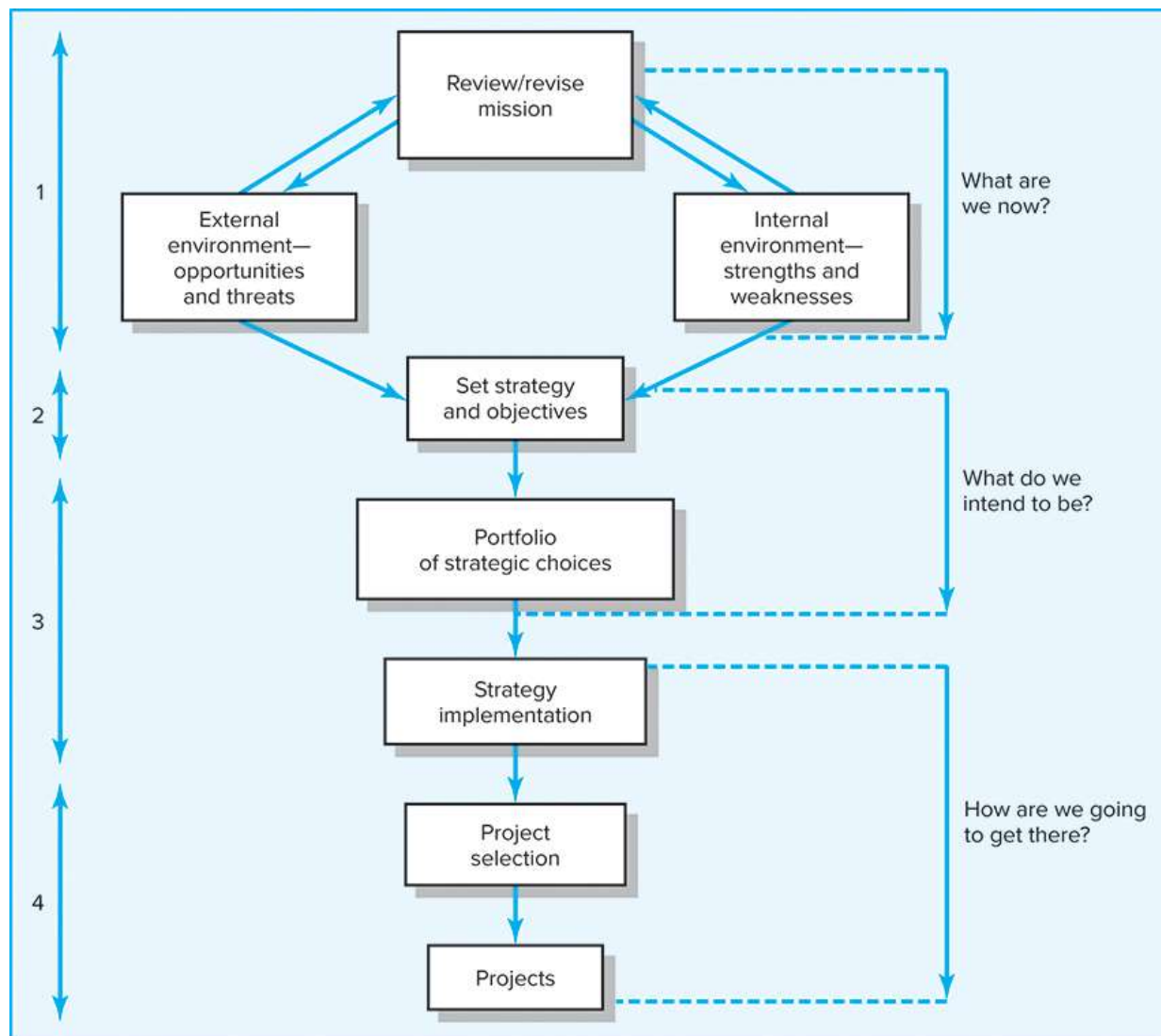
- Changes in the organization's mission and strategy
 - Project managers must respond to changes with appropriate decisions about future projects and adjustments to current projects.
 - Project managers who understand their organization's strategy can become effective advocates of projects aligned with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

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.

Four Activities of the Strategic Management Process

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



Strategic Management Process

FIGURE 2.1

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

The Need for a Project Priority System

- 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.

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

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.

Portfolio of Projects by Type

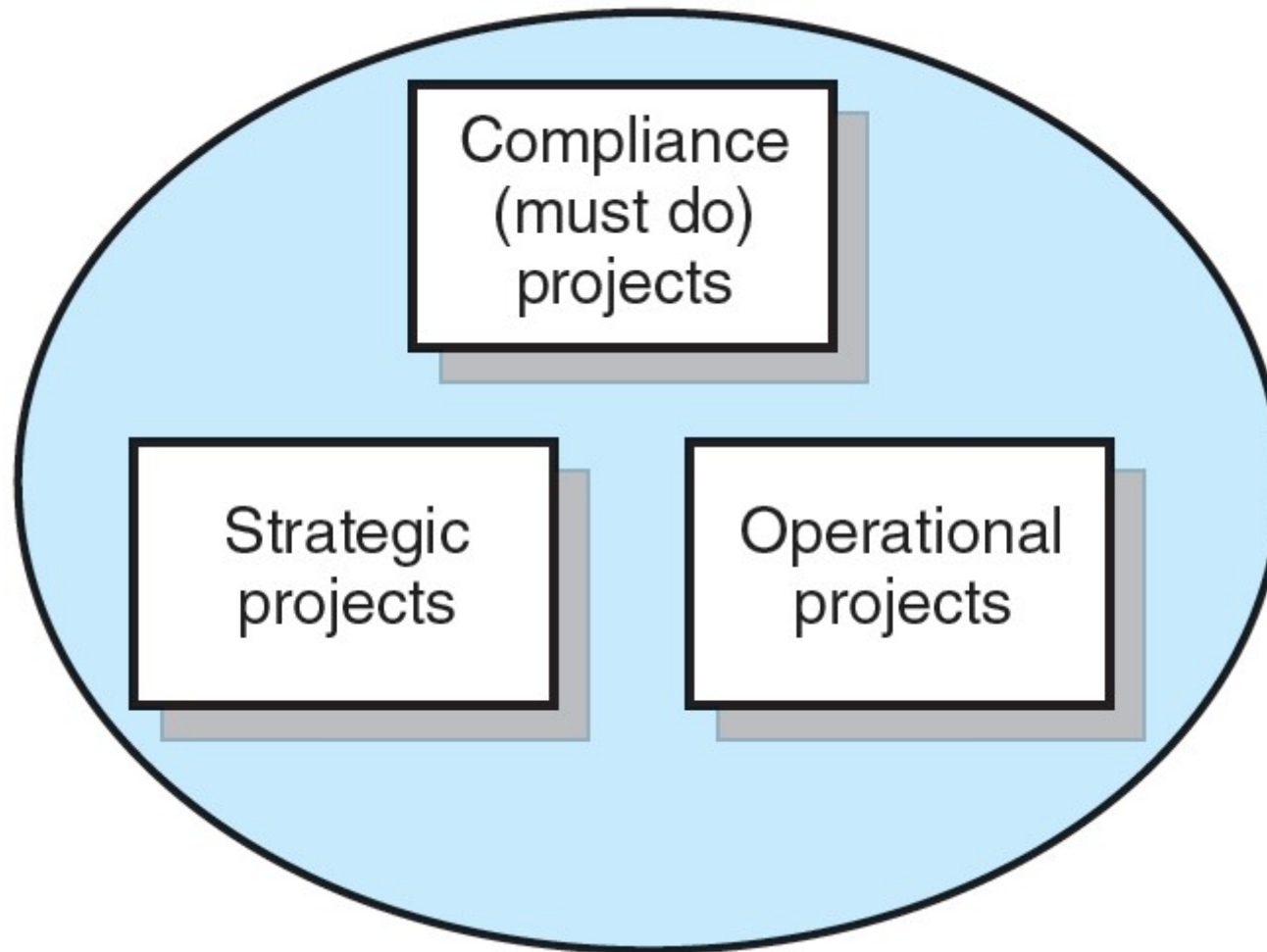


FIGURE 2.2

A Portfolio Management System

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

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
- To restore corporate image or enhance brand recognition
- To demonstrate its commitment to corporate citizenship and support for community development

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.

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

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

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

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 align projects 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

Applying a Selection Model (cont'd)

- 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 governance team (project office) responsibilities

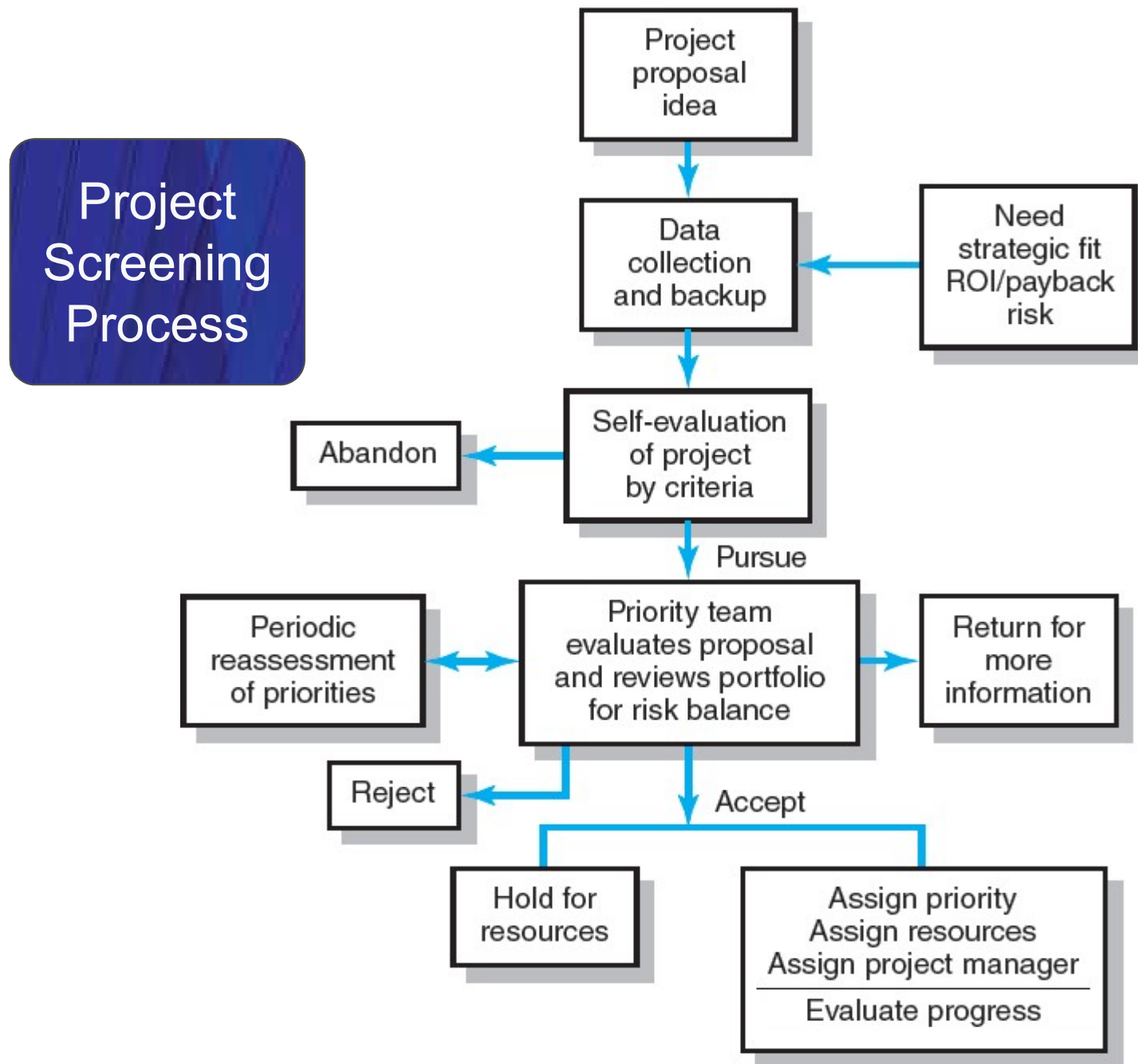


FIGURE 2.5

Managing the Portfolio System

- Senior Management Input
 - Provide guidance in selecting criteria that are aligned with the organization's strategic goals.
 - Decide how to balance available resources among current projects.
- The Governance 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.

Balancing the Portfolio for Risks and Types of Projects

- 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.

