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.
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.
  – Stopped for APM811S on Friday 10-02-17
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
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 Strong 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.
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.

• Stopped on 13th Feb 2017 for PLM811S
FIGURE 2.2

Portfolio of Projects by Type

- Compliance (must do) projects
- Strategic projects
- Operational projects
A Portfolio Management System

• Selection Criteria
  – Financial models: payback, net present value (NPV)
  – Non-financial models: projects of strategic importance to the firm.

• Multi-Weighted Scoring Models
  – Use several weighted selection criteria to evaluate project proposals.
  – Stopped on 13/02/17 for APM811S FM
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.
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.

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

\[I_0 = \text{Initial investment (since it is an outflow, the number will be negative)}\]
\[F_t = \text{net cash inflow for period } t\]
\[k = \text{required rate of return}\]
### Example Comparing Two Projects Using the Payback Method

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<td>3.6 years</td>
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<td>13</td>
<td>Rate of return **</td>
<td>32.1%</td>
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<td>15</td>
<td>Project A: Accept. Less than 5 years and exceeds 15% desired rate.</td>
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<td>16</td>
<td>Project B: Accept. Less than 5 years and exceeds 15% desired rate.</td>
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<td>* Note: Payback does not use the time value of money.</td>
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<td>** Note: Rate of return is reciprocal of Payback.</td>
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**EXHIBIT 2.3a**
Example Comparing Two Projects Using Net Present Value Method

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<td>22</td>
<td>NPV comparison: Accept Project A---NPV is positive.</td>
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<td>23</td>
<td>Reject Project B---NPV is negative.</td>
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EXHIBIT 2.3b
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.
- Stopped for APM811S on 14/02/17 FM
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 to 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

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<thead>
<tr>
<th>Topic</th>
<th>Question</th>
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<tbody>
<tr>
<td>Strategy/alignment</td>
<td>What specific strategy does this project align with?</td>
</tr>
<tr>
<td>Driver</td>
<td>What business problem does the project solve?</td>
</tr>
<tr>
<td>Success metrics</td>
<td>How will we measure success?</td>
</tr>
<tr>
<td>Sponsorship</td>
<td>Who is the project sponsor?</td>
</tr>
<tr>
<td>Risk</td>
<td>What is the impact of not doing this project?</td>
</tr>
<tr>
<td>Risk</td>
<td>What is the project risk to our organization?</td>
</tr>
<tr>
<td>Risk</td>
<td>Where does the proposed project fit in our risk profile?</td>
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<tr>
<td>Benefits, value, ROI</td>
<td>What is the value of the project to this organization?</td>
</tr>
<tr>
<td>Benefits, value, ROI</td>
<td>When will the project show results?</td>
</tr>
<tr>
<td>Objectives</td>
<td>What are the project objectives?</td>
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Stopped for PLM811S FM on 17/02/17
<table>
<thead>
<tr>
<th>Topic</th>
<th>Question</th>
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<tbody>
<tr>
<td>Organization culture</td>
<td>Is our organization culture right for this type of project?</td>
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<tr>
<td>Resources</td>
<td>Will internal resources be available for this project?</td>
</tr>
<tr>
<td>Approach</td>
<td>Will we build or buy?</td>
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<tr>
<td>Schedule</td>
<td>How long will this project take?</td>
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<tr>
<td>Schedule</td>
<td>Is the time line realistic?</td>
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<tr>
<td>Training/resources</td>
<td>Will staff training be required?</td>
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<tr>
<td>Finance/portfolio</td>
<td>What is the estimated cost of the project?</td>
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<tr>
<td>Portfolio</td>
<td>Is this a new initiative or part of an existing initiative?</td>
</tr>
<tr>
<td>Portfolio</td>
<td>How does this project interact with current projects?</td>
</tr>
<tr>
<td>Technology</td>
<td>Is the technology available or new?</td>
</tr>
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</table>
## Project Screening Matrix

*FIGURE 2.3*

<table>
<thead>
<tr>
<th>Criteria Weight</th>
<th>Stay within core competencies</th>
<th>Strategic fit</th>
<th>Urgency</th>
<th>25% of sales from new products</th>
<th>Reduce defects to less than 1%</th>
<th>Improve customer loyalty</th>
<th>ROI of 18% plus</th>
<th>Weighted total</th>
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<tr>
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<td>0</td>
<td>10</td>
<td>10</td>
<td>8</td>
<td>83</td>
</tr>
</tbody>
</table>
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
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
## Project Proposal Form

**Date:** Jan 22, 2xxx  
**Proposal #** 11  
**Sponsor** J. Moran

### Project classification?
- [X] Strategic  
- [ ] Infrastructure  
- [ ] 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

### Will this project require internal resources?
- Yes [X]  
- No [ ]  
- Available [ ]

### What is the estimated cost of the project? $10 million

### How long will this project take? 22 Weeks

### Oversight action:
- Accept [X]  
- Return [ ]

**Signature:** XXXXXX  
**Date:** Feb. 7, 2xxx

---

**FIGURE 2.4A**

A Proposal Form for an Automatic Vehicular Tracking (AVL) Public Transportation Project
Brief Risk Assessment

Purpose: To draw attention to apparent project risks that will need management attention.

What are the four major risks of this project?

1. Government incentives curtailed
2. Land use injunction
3. Energy price decrease
4. New import tax

Rank risks above by “probability” and “impact” on the chart below by High, Medium or Low.

Risk Intensity Rating

<table>
<thead>
<tr>
<th>Risk</th>
<th>Probability</th>
<th>Impact</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Government incentives curtailed</td>
<td>High</td>
<td>High</td>
</tr>
<tr>
<td>2. Land use injunction</td>
<td>Medium</td>
<td>High</td>
</tr>
<tr>
<td>3. Energy price decrease</td>
<td>Medium</td>
<td>Medium</td>
</tr>
<tr>
<td>4. New import tax</td>
<td>Low</td>
<td>High</td>
</tr>
</tbody>
</table>

Check other project risk factors:

Complexity  Low  Average  High
Resource skills  Good  Okay  Lacking
Technology  Low  Average  High

Reviewed by Rachel  Date April 1, 2xxx
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
FIGURE 2.5

Project Screening Process

- Project proposal idea
- Data collection and backup
- Need strategic fit ROI/payback risk
- Self-evaluation of project by criteria
- Abandon
- Pursue
- Priority team evaluates proposal and reviews portfolio for risk balance
- Return for more information
- Accept
- Periodic reassessment of priorities
- Reject
- Hold for resources
- Assign priority
- Assign resources
- Assign project manager
- Evaluate progress
### Project Number

<table>
<thead>
<tr>
<th>Must objectives</th>
<th>Must meet if impacts</th>
<th>26</th>
<th>27</th>
<th>28</th>
<th>29</th>
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</thead>
<tbody>
<tr>
<td>All activities meet current legal, safety, and</td>
<td>Yes-Meets objective No-Does not meet obj N/A-No impact</td>
<td></td>
<td></td>
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<td></td>
</tr>
<tr>
<td>environmental standards</td>
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</tr>
<tr>
<td>All new products will have a complete market</td>
<td>Yes-Meets objective No-Does not meet obj N/A-No impact</td>
<td></td>
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<td>analysis</td>
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</table>

### Want Objectives

<table>
<thead>
<tr>
<th>Want objectives</th>
<th>Single project impact definitions</th>
<th>Weighted score</th>
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</thead>
<tbody>
<tr>
<td>Provides immediate response to field problems</td>
<td>99</td>
<td>99</td>
</tr>
<tr>
<td>Create $5 million in new sales by 20xx</td>
<td>88</td>
<td>0</td>
</tr>
<tr>
<td>Improve external customer service</td>
<td>83</td>
<td>166</td>
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</tbody>
</table>

### Total weighted score

### Priority
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.
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