

MGMT 4135
Project Management

Chapter-2

**Organization Strategy &
Project Selection**

Organization Strategy

- Strategy is deciding how the organization will compete
- Projects convert strategy into new products, services, and processes
- Aligning project with strategic goals of the organization is crucial for project success.
- Every project should have a strong linkage to the organization's strategy. It is vital that project managers understand the strategy of the organization.
- Organizations ensure that projects are integrated with their strategic goals

Organization Strategy

- Project managers need to understand the mission and strategy
 1. So they can make appropriate decisions and adjustments when responding to delays or modification of a product design
 2. So they can be project advocates (buy-in). They need to demonstrate to management how their project contributes to the firm's mission and goals.
 3. So they can explain to team members and stakeholders why certain project objectives and priorities are critical.

Organization Strategy

- Strategy management responds to changes in the external environment for competitive position.
 1. Keeping current of external changes is a major requirement for survival.
 2. Constant scanning of the external world is a major requirement for survival
 3. Having buy-in from internal resources prompts healthier responses to new programs aimed at enhancing the competitive position of the firm.

Organization Strategy

- Four Activities of Strategic Management Process.
 1. Review and define the organization's
 2. Set long-range goals and objectives
 3. Analyze and formulate strategies to reach those objectives
 4. Implement those strategies through projects
- **Mission statement** – the rule of thumb is for the statement to be unique. If it is like any other organization's mission, it will not provide the guidance and focus needed.
- The statement sets the parameters for developing the proper goals and objectives.

Organization Strategy

- Setting long-range goals and objectives
 1. Here is where the mission is translated into specific, concrete, and measurable terms that targets all levels of the organization.
 2. Objectives: where the organization is headed and when it is going to get there
 3. Objectives should be as operational as possible and should include a time frame, be measurable, be an identifiable state, and must be realistic.



Organization Strategy

- Objectives must be SMART

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

- **Cascading of objectives:** Each level of the organization should support these objectives in more detail and thus the costs and profits realized by the objective are shared with multiple functional departments across the organization.
- **Organizational objectives drive projects.**
See pg. 29, bottom of 2nd paragraph for an example

Organization Strategy

- Analyze and Formulate Strategies to Reach Objectives
 1. Formulate answers to these questions:
 - a) *WHAT* needs to be done to reach the objective(s)
 - b) *WHO* re the customers
 - c) *WHAT* are customers' needs as the customer sees it
 2. Analyze and assess internal and external environments

3. **SWOT ANALYSIS**

Strengths and Weaknesses: core competencies such as technology, product quality, management talent, low debt, network of dealers.

Opportunities and Threats: external forces that cause change in technology, industry structure, and industry competition.

Organization Strategy

SWOT ANALYSIS (Continued)

1. Threats and be perceived as opportunities

E.g. The slowing economy (a threat) could produce demand for a product not normally in demand during a strong economy (opportunity). *One such example is the demand for refinancing mortgages at a lower interest rate. Lower interest rates were driven down by the sluggish economy. Another example is the demand for hybrid seeds as more homeowners are now growing their own vegetables to help contain rising grocery costs. The seed industry is benefiting from the threat of rising grocery costs.*

2. Opportunities can be perceived as threats

E.g. Increasing demand, emerging markets and demographics (opportunity) forces organizations to commit large sums of money (financial threat) to upgrade internal technology and processes in order to keep in step with such external changes.

Organization Strategy

SWOT ANALYSIS (Continued)

1. From SWOT analysis, critical issues are identified
2. Alternatives are also identified
3. Strategies are then selected to support the mission and objectives of the organization
4. Strategy ends with cascading objectives in which project are born; they are assigned to lower divisions, departments, and/or individuals

Organization Strategy

- Implement Strategies through Projects
 1. Implementation answers *HOW* strategies will be realized
 2. Implementation requires completing actions and tasks and includes attention to several key areas
 - a) Allocation of resources to complete tasks
 - b) Multiple objectives resulting in projects places conflicting demands on the organization and resources
 - c) The organization must support the strategy and ensuing projects
 - d) Planning and control systems must be in place to ensure project activities are effectively performed
 - e) Motivating the contributors to projects will be a major factor for achieving project success
 - f) Prioritization of projects

Scenario Planning

- This has become the leading methodology for planning the future
- It gets the organization thinking about the “big picture” not just merely surviving.
- Prevents organization silos as it involves the participation of everyone
- Improves the organization’s ability to foresee weaknesses, inflexibilities, and resistance to change
- Positions the organization to wisely respond to changes environmental forces by determining the kinds of projects that will need to be implemented.

Case for Portfolio Management System

- A strong priority system linked to strategy avoids problems
- A project portfolio system is used to reduce or even eliminate the impact of the following problems:

1. Implementation Gap:

- a. Executive management normally formulates the strategy but leaves the implementation up to functional managers. The result is strategy disconnect and unclear priorities. **An implementation gap** is defined as lack of understanding and consensus within the organization throughout all levels of management.
- b. Top management picks their top 20 projects without priority and turns it over to the functional departments. Functional departments pick projects from the list without direction in priority. The issue with this is that the IT department may rate one project as a top priority but upper management may have ranked this project in 10th place. Such a disconnect may result in disagreement and conflict of interest.

Case for Portfolio Management System

2. Organization Politics:

- a. Politics can have a significant influence on which project receive funding and high priority.
- b. Occurs because projects are ill-defined and misaligned with the mission of the organization.
- c. **Sacred Cow** denotes a project being advocated by powerful and high ranking manager without regard to priority.
- d. Should Politics and Project Management mix? The reality is that project managers recognize that significant projects typically have political ramifications.
- e. Top management needs a **control system** for identifying and selecting the right projects and the right time. This is the goal of a **Portfolio Management System**.



Case for Portfolio Management System

3. Resource Conflicts and Multitasking

- a. Projects most often share the same resources. Project managers vying for the same resources can be contentious
- b. This issue grows significantly as the number of active projects increase. Also changing priorities (common) just exacerbates multitasking problems even more.
- c. When this happens, resources begin multitasking, i.e. starting and stopping work on one project task to begin work on another project task. This is the result of too many projects for the resources in demand
 - 1) Resources become inefficient and non-productive as they find it difficult to get into the rhythm of one project at a time
 - 2) Multitasking adds to project delays and additional costs.
- d. Criteria for evaluating and selecting projects requires a priority system that ranks projects by the amount of contribution they provide towards the strategic goals.

Case for Portfolio Management System

3. Resource Conflicts and Multitasking

- e. A **project portfolio system** is becoming well recognized in project-driven organizations.
- f. The right portfolio of projects helps to better manage the selection of projects that supports the organization's strategic objectives

Benefits of project portfolio management:

- Builds discipline into 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 organization strategy.
- Improves communication and supports agreement on project goals.

Portfolio Management System – Project Selection

- 1. Classification of Projects** – Many organizations have 3 kinds of projects in their portfolio:
 - **Operational Projects:** Needed to support current operations, improve efficiencies, reduce product costs, improve performance
 - **Strategic Projects:** Directly support the organization's mission and are directed towards revenue and market share.
 - **Compliance and Emergency Projects:** Must be implemented or the organization will fail or may suffer dire penalties for not being in compliance with regulations,

Portfolio Management System – Project Selection

2. Selection Criteria

- **Financial** criteria – the preferred method for evaluating projects
 - a) **Payback model:** How many years will it take until the initial investment starts to see a profit? The limitations this payback model is that it does not take into account the value of money over time, only looks at cash inflows during the investment period and not beyond nor does it consider profitability.
Payback Years = Est. Project Cost / Annual Savings
 - b) **Net present value (NPV):** Uses the minimum desired rate-of-return discount to compute the present value of cash inflows. Greater than 1, the project is eligible for consideration; less than 1, the project is rejected.

$$PV = Investment \$ / (1 + \%) ^t$$

$$PV = \$3,000 / 1 + 10\% \text{ for year } 1 = \$2,727$$

$$PV = \$3,000 / 1 + 10\% \text{ for year } 2 = \$2,893 \text{ (do this for each year)}$$

$$NPV = \text{sum of each PV}$$

Portfolio Management System – Project Selection

2. Selection Criteria

- **Nonfinancial** – method to capture larger market share prevent government regulation; develop next-generation technology, prevent competitors into the market
Subjective criteria
- **No** criterion – When no single criterion is used, portfolio management will use the *checklist* and *multi-weighted scoring* models
- **Selecting a Criteria Model** – Regardless of which criterion model is used, senior management is interested in the best use of human and capital resources to maximize ROI, alignment with strategic goals, and overall profitability of the organization.

Portfolio Management System – Project Selection

2. Selection Criteria

- **Checklists** – allows great flexibility in project selection across different division and location but with severe shortcomings. See pg. 40 Exhibit 2.4 for sample check list.
 - a) Shortcoming include failure to determine value of the project to the organization, does not allow for comparison among other potential projects.
 - b) Ranking and prioritization of projects in the portfolio is nearly impossible
 - c) Leaves the door open for politics, power plays, and other forms of organizational manipulation.
 - d) Use of *multi-weighted scoring* is recommended to overcome these shortcomings.

Portfolio Management System – Project Selection

2. Selection Criteria

- **Multi-weighted scoring** – includes qualitative and quantitative criteria using scores assigned to each criterion for the project. Projects with a higher weighted score are considered over lower scored projects.
 - a) Failure to pick the right factors will render the screening process “useless.” Read Pg. 41 *Snapshot from Practice, Crisis IT, “Frontier Airlines Holdings.”*
 - b) Consider the Project Screen Matrix Figure 2.3 on pg. 41
 - c) Weights are to be relative to the importance of the org’s objectives and strategic plan.
- **Fact check #1:** while the multi-weighted scoring model provides numerical value to projects, models in general should not make the final decision. Model are for guidance when evaluating so that all relevant elements are considered.

Portfolio Management System – Project Selection

2. Selection Criteria

- **Fact check #2:** A high ranked project may be bypassed because there are too many other projects in the portfolio with similar characteristics: project risk level, use of key resources, high cost, non-revenue producing, and long durations, to name a few.

Portfolio Management System – Project Selection

2. Selection Criteria

- **Who prioritizes?**
 - a) Uncomfortable exercise for senior management
 - b) Requires discipline, flexibility, constraints, and loss of power.
 - c) Management commitment can be risky if the ranked objectives later prove to be poor choices for the org.
 - d) As stated earlier, the course for the organization is set by top management and should truly try to direct the org. to a strong future position.
 - e) A good project priority system will support their efforts
 - f) A good project priority system will further develop a culture in which everyone in the org. is contributing to the goals of the organization.

Portfolio Management System – Project Selection

3. Managing the Portfolio Management System

- Managing the PMS involves constant monitoring and adjusting the selection criteria to maintain strategic focus
- Sr. management must provide guidance in establishing selection criteria that strongly sign with the org.'s strategy
- Sr. management must balance available resources (people and capital) across the different types of projects (*compliance, strategic, operational*)
- In larger organizations, the PMS is typically managed by the project management office (PMO). The PMO is responsible for publishing the priority of all projects in the portfolio
- Priority review and selection criteria needs to change when the external environment forces change.

Portfolio Management System – Project Selection

4. Balancing the Portfolio for Risks and Project Types

- Responsibility of the priority team (PMO) is to balance projects by type, risk, and resource demand.
- Two Types of Project Risks to Consider:
 1. Risks associated with the total portfolio of projects should reflect the organization's risk profile (risk averse, risk neutral, risk acceptance).
 2. Risks that can inhibit the execution of a project due to schedule risks, cost risks, and technical risks. *(More about risks in Chapter-7)*

Chapter-2 Strategy & Project Selection



Chapter-2 Key terms:

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