

Project Management and the Organisational Strategy

An ESI International
White Paper



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Project Management and the Organisational Strategy

Project management is rapidly becoming a standard way of doing business in organisations. We accomplish a considerable portion of our typical firm's effort through projects. Projects are becoming the tools of implementing the business strategy of an organisation. Every project in an organisation should contribute to its strategic plan. How can we ensure this linkage? We need to make sure that we integrate projects within the strategic plan. This integration requires a process for prioritising projects by their contribution to the plan. In this white paper, we will introduce the strategic planning process, how it relates to project management, and how to implement a project selection and prioritisation process.



An Overview of the Strategic Management Process

In customer driven organisations, vision, mission, and goals are set to meet the needs of the customers. The vision states, “What we want to become.” We need to communicate this vision throughout the organisation. In addition, we need to make sure that everyone in the organisation is aware of the organisation’s mission, “What our business is and how we go to achieve our vision.” Business goals translate the vision, and the mission into broad long-term, measurable, and tangible terms. The objectives answer in detail where a corporation is heading or when it is going to get there. These objectives should set targets for all levels of the organisation. Each level of the organisational objectives should support the higher-level objectives in more detail. Table 1 depicts examples of goals, strategies and objectives.

Company	Business Goal	Business Strategy
Ford Motor Company	<ul style="list-style-type: none"> Regain market share recently lost to General Motors Regain quality reputation that was damaged because of Pinto gas tank explosions 	<ul style="list-style-type: none"> Resize and downsize present models Emphasise use of programmed combustion engines instead of diesel engines
Burger King	<ul style="list-style-type: none"> Increase productivity 	<ul style="list-style-type: none"> Increase people efficiency Increase machine efficiency
CP Railroad	<ul style="list-style-type: none"> Continue company growth Continue company profits 	<ul style="list-style-type: none"> Modernise Develop valuable real estate holdings Complete an appropriate railroad merger

Table 1: Examples of Business Goals and Related Strategies

The development of strategies to meet these needs and goals answers the question of “What we need to do to achieve these goals.” It requires an extensive analysis of the internal and external environments. Based on a political, economic, social, and technological analysis (PEST), we analyse the external environment to identify opportunities, and threats. We analyse the internal environment looking for strengths and weaknesses such as management, facilities, core competencies, product quality, technology, and financial resources. The deliverable of this analysis is a set of strategies designed to best meet the needs of the customers.



Implementation of these strategies requires actions, and completing tasks. It answers the question of “How are we going to realise these strategies.” Implementation must include attention to the following key points:

- Executing the work requires allocation of resources such as funds, people, and equipment. Organisational resources are limited. In addition, multiple goals frequently impose conflicting demands on resources. This requires a mechanism for allocating resources based on organisational priorities.
- Implementation requires an organisational structure that supports projects.
- Project management processes for planning, executing, and controlling are essential to ensure that we are able to implement strategies effectively and efficiently.
- We need a project selection and priority system to ensure strong linkages between projects and the strategic plan.

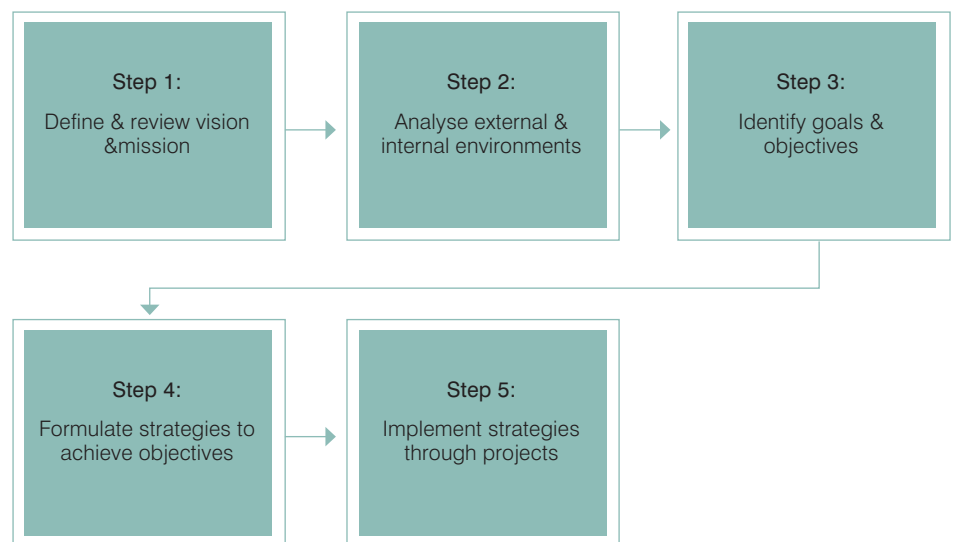


Figure 1: Strategic Management & Project Management

Figure 1 shows the strategic management process and its relationship to projects.

The Need for a Project Selection and Priority System

The need for a project selection and priority system stems from the following observations:

- Organisations frequently pursue many projects simultaneously. Almost inevitably, the number of small and large projects in a portfolio exceeds the available resources such as funds, equipment, and competencies.
- Projects are taking place in organisations. Politics exist in every organisation and can have a significant impact on project selection. Many projects within companies are associated with the term “sacred cow.” We often use this term to describe a project sponsored by a high ranking official.
- Without an effective project selection and priority system, the capacity overload coupled with project politics will lead to frustration, confusion, and inefficient use of resources.

Questions to be answered

Some of the questions that we need to tackle when we are considering a project selection and priority system are as follows:

- *How can we minimise the power of politics?*
- *How can we consistently prioritise projects to support the organisational strategy?*
- *How can we use the prioritised list of projects to allocate organisational scarce resources?*
- *How can the process encourage bottom-up initiation of projects that support organisational goals and strategies?*



A fact is that we are always going to have more potential projects or proposals than the capacity of the organisational resources. Thus, we need a systematic process that will select projects and allocate resources to these projects in order to maximise value added. Selection of projects from a slate of projects requires the use of a decision model in association with specific criteria.

The benefits of carefully selected criteria are as follows:

- *More effective planning of organisational resources*
- *More efficient utilisation of organisational resources*
- *A portfolio of projects that balance opportunities, and threats given available resources*
- *Keeping the organisation stakeholders focused on the most critical projects*
- *Obtaining consensus as to which projects have the highest priority*

Nevertheless, when we have implemented a project selection and priority system in our organisation we met enormous skepticism and resistance.

Typical responses include the followings:

- *We all know which projects are the most important ones*
- *All projects are important*
- *Our business is changing on daily basis. We do not need an extra layer of bureaucracy, which limits our flexibility.*

Responses such as the above suggest a serious need for a project selection and priority system. Nevertheless, the development and the implementation of such a system will not materialise without the support and sponsorship of upper management.

Practitioners can choose from a relatively large number of project priority and selection models. Picking a selection model is highly dependent on certain organisational attributes such as industry, risk aversion level, technology, competition, management style, and markets.

Selection models should encompass multiple criteria such as profitability, researching new technology, public image, core competencies, and strategic fit.



The Selection Process

Rarely is the situation where we “must” select a project; otherwise, the organisation will fail or will suffer from a severe loss. If a project falls in the “must” category, we ignore all other selection criteria. The question is when we place a project in the “must” category. The answer is when the majority of the organisation stakeholders agree that the project is crucial and we need to implement it. There is no other choice but to implement the project in order to ensure the continuity of the organisation. For all remaining projects, we will use multiple selection criteria, which link the project to the organisational strategy.

Proposals Screening

Proposals for projects come from internal and external sources. In most situations, organisations have more proposals on hand, than they can pursue. These proposals have to go through a screening process. Figure 2 shows a screening process used by one of my clients. The prerequisites for implementing an effective screening process are:

- *Publishing of the selection criteria so that self-evaluations are carried out by sponsors before they are submitted to the priority team*
- *Publishing guidelines and templates for developing a business case which will facilitate the evaluation process by the priority team*

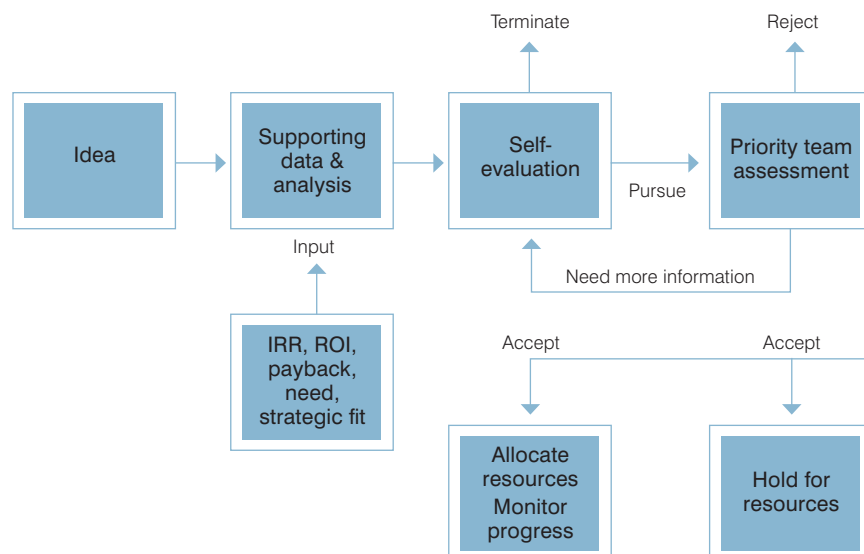


Figure 2: Proposal Screening Process

The Priority Team

In order to implement an effective project priority and selection process, we need to clarify the roles and responsibilities of the priority team. The project priority team is responsible for:

- *Evaluating project proposals on the basis of the selection criteria*
- *Accepting or rejecting proposals*
- *Publishing the score of each proposal and ensuring the process is open and free*
- *Balancing the portfolio of projects for the organisation*
- *Evaluating the progress of the projects in the portfolio over time*
- *Reassessing organisational goals and priorities if conditions change*

Selection Criteria

We need to base the project selection criteria on the organisational critical success factors and strategic goals. Failure to select the right factors will render the priority and selection process useless. Example of typical selection criteria used by one of my customers:

- *Alignment with core competencies*
- *Alignment with strategic goals*
- *Internal rate of return in excess of (a certain number say 15%)*
- *Improve customer service*
- *Urgency*



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Management weights each criterion by its relative contribution and importance to the organisation’s goals, and strategic plan. The project priority team evaluates each project proposal by its relative contribution or benefit to the selection criteria. The priority team assigns a spectrum of values for each criterion ranging from low (0), to high (10). This value represents the proposal’s fit to the specific criterion. Table 2 shows a project selection matrix. For example, “Proposal 1” appears to fit well with the strategic goals of the organisation since the priority team gave it a score of seven. However, “Proposal 1” does little to support core competencies since the priority team gave it a score of two. The last step in this model is to apply management weights to each criterion by importance using a spectrum of values ranging from low (1), to high (3). For example, improve customer service has a weight of three while urgency has a weight 2. Note that urgency is different than “must” category discussed above. Although proposal 4 appears to have some urgency, yet we did not classify it as a “must” project. That is why we are analysing it with other proposals. In rare cases such as two projects have the same score; the priority team may pick the project that has less demand on organisational resources.

Selection Criteria	Alignment with core competencies	Alignment with strategic goals	Internal rate of return in excess of 15%	Improve customer service	Urgency	Total Score
Weight	2.0	3.0	1.5	3.0	2.0	
Proposal 1	2	7	3	5	3	50.5
Proposal 2	3	4	1	5	3	40.5
Proposal 3	9	6	3	3	3	55.5
Proposal 4	5	0	9	7	8	56.5
Proposal 5	3	8	4	9	4	69.5

Table 2: Project Scoring Matrix



Assessing Results

The project priority system selects which projects we need to pursue based on their support to the organisational strategy. In addition, we need a model that assesses the long-term effectiveness of the project priority system. The assessment model focuses on the performance in five main areas:

- *Customer*
- *Internal*
- *Innovation*
- *Knowledge transfer*
- *Financial measures*

We need to collect metrics in order to analyse and assess the effectiveness of the project priority system. The following list shows some typical metrics that we use to assess these five main areas:

- *Customer*
 - *Sales compared to industry norms*
 - *Percentage of on-time /within budget/according to specifications projects*
- *Internal*
 - *Time to market a new product or service*
 - *Reduction in design time*
- *Innovation*
 - *Sales generated from new products*
- *Knowledge transfer*
 - *Savings generated from improvements in project management processes*
- *Financial measures*
 - *Return on investment*
 - *Internal rate of return*
 - *Cash flow analysis*

We need to measure these metrics over a period and compare them with industry norms if they are available in order to have a fair view of the company performance.



Summary

A project management approach to business problems and opportunities is becoming the norm rather than the exception. Projects are the tools for implementing the strategy of the organisation. Effective project management starts with selecting and prioritising projects that support the organisational vision, mission and strategy. The priority system focuses attention on the vision, mission and major goals of the organisation. It fosters consensus to which projects are of highest priority. It results in a portfolio of projects that balance threats and opportunities. It provides a better utilisation of resources. We need to evaluate all project proposals using the same selection criteria. We need to enforce the project priority system. Furthermore, maintaining its openness and aboveboard are crucial in order to sustain its integrity. The priority team needs to communicate which projects are approved project priorities or ranks, status of in-progress projects, and changes in project selection criteria. Such a system will enable the organisation to integrate its goals and strategy with a portfolio of projects selected through a proactive process.

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