Business Strategy and the Project Portfolio: Choosing the Right Projects

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What You'll Learn Today

- Our focus in this session is on **choosing the right projects** for your organization
- Making the right project choices means implementing a series of field proven best practices for:
  - **Linking** an organization's project workload to its' corporate strategy
  - **Evaluating** all potential projects in strategic terms
  - **Choosing and executing** only the highest value, *strategically aligned* projects

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The Right Projects

- A good place to begin today's presentation is to consider what is meant by the phrase 'the right projects'
- The right projects are those projects that:
  - Are **highly valued** by the organization
  - Are **aligned** with specific organizational objectives or needs
  - Will **create business value** for the organization
- In today's chaotic business and economic climate it's more important than ever to ensure that an organizations' scarce resources are focused on the right projects – those *projects that promise to provide the organization with significant current and future business value*

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Translate Strategy Into Action

- Project work is how the organization **translates the business strategy into action**
- Organizations implement new strategic initiatives and adapt to an ever-changing business environment largely through project work
- A steady steam of new projects is key to ensuring an organization's growth
  - For example, a new product or service begins life as a product development project
  - For example, a new market or distribution channel begins life as a marketing research project

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Translate Strategy Into Action

- Given the linkage between an organization's project workload and it's business strategy, it is essential that we **think and act strategically in selecting the projects we engage in**
- However, **thinking and acting strategically is easier said than done** ***– there's often a BIG GAP!***
- Several studies have demonstrated that **organizations underperform due to breakdowns between strategy and execution**

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Translate Strategy Into Action

- Although a detailed discussion of business strategy is beyond the scope of today's presentation, there are some fundamental concepts of strategy that project planners and project managers must understand if they are have to have a chance at *closing the gap between strategy and execution*

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Strategic Intent

- First, **strategy articulates intent** rather than a specific plan or course of action
- Therein lies the source of perhaps the most significant problems germane to all strategy implementation efforts –
  - **the gap between outcomes and plans**
  - **the gap between plans and actions**
  - **the gap between actions and outcomes**

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Three Critical Gaps

- The gap between outcomes and plans is referred to as the **knowledge gap**
  - *Our plans are imperfect because we lack knowledge*
- The gap between plans and action is referred to as the **alignment gap**
  - *Our actions are not always those we desire because we failed to align everybody who needed to act*
- The gap between actions and outcomes is referred to as the **effects gap**
  - *Even if we have the best information available and everyone has done exactly what we planned, our actions can still fail to produce the results we desired because of changes in the business environment*

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Closing These Gaps

- Second, our natural reactions to closing these gaps not only fails to solve them, but can actually make them worse
  - *So what can we do?*

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Closing These Gaps

- To execute strategic intent successfully, *these three gaps must be addressed together and simultaneously*!
- Therefore, *a balanced approach to strategic execution* is the recommended way forward and it relies on:
  - Quickly *gathering just enough information* so as to avoid costly missteps while not missing out on opportunities
  - *Creating alignment to strategic intent* thereby enabling people to take appropriate and desirable actions in light of the situation they actually face at a given point in time

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The Next Step

- Although strategic intent does not provide a specific plan of action, it does offer up a destination or desired end-state – a vision
- Equipped with this desired end-state, we can work backwards from that end-state, effectively working out **what we need to do now** – the next steps – toward reaching the desired end-state
  - *The late Stephen Covey referred to this practice most famously as "beginning with the end in mind"*

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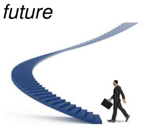
Are We There Yet

- We execute strategy not in one fell swoop, rather we execute strategy one step at a time, pausing along the way for a reality check; asking ourselves continuously are we there yet, did our last actions draw us closer to our vision
- What ultimately defines our understanding of strategic intent is being able to *extrapolate implied tasks now* while still *being able to make trade-offs in the future*



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What Project Managers Can Do

- With this background in place, we're now ready to review a series of **best practices that can help** organizations and project managers in their quest **toward making the right project choices**

Take a Structured Approach

- A structured approach to managing the organization's project backlog or wish list ensures the alignment of projects with corporate strategies and optimizes resource allocation
- The structured approach to managing the organization's project backlog or wish list is formally known as **Project Portfolio Management**
- Project Portfolio Management helps the organization ***choose or invest in the right projects for the right reasons***

The Portfolio Mindset

- Portfolio management is traditionally associated with financial investment strategies
  - Instead of putting all of your money into a single type of financial asset, you spread your money around, creating a *diverse* portfolio of different types of investments, each with a different amount of risk and risk-adjusted rate of return
- The same thought process use to select financial assets for an investment portfolio can likewise be **applied to how the organization chooses to invest in projects of all types**

Why Project Portfolio Management

- Projects serve as the vehicle to implement and execute the corporate strategy
- If you can't articulate your overall business strategy, you can't make smart decisions about which projects to take on
- The success of strategy is purely determined on how well it is executed
- The complexity and diversity of projects in most organizations makes the need for a clear project strategy all the more compelling while making the ability to execute that strategy even more challenging

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Why Project Portfolio Management

- The portfolio management approach creates a level playing field whereby ***all projects are considered and prioritized use the same risk and return criteria***
- The project portfolio represents *the investments that will determine your firm's future direction* – Does the portfolio represent your most profitable project investments?
- If you want to find out where your organization is going to be three to five years from now, don't look at your stated strategy; instead look at your project portfolio – **the project portfolio operationalizes business strategy**

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Why Project Portfolio Management

- The proliferation of projects in companies has been both driven by and complicated by an increasing reliance on intangible assets
- Projects often work at cross-purposes to one another or are duplicated by managers unaware of each other's efforts
- *Managing projects in portfolios recognizes the relationships among distinct projects and aligns these individual actions with broader, organizational needs*

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Why Project Portfolio Management

- Project Portfolio Management provides:
  - Increased transparency
  - Better accountability and control of projects
  - Improves decision-making about which projects to undertake and which to postpone or not pursue
  - A means to evaluate the interactions between projects, helping to manage portfolio risks

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Why Project Portfolio Management

- Effective project portfolio management allows you to align all project work with your company's strategic goals
- Project portfolio management is concerned with selecting the "right" projects
- Project portfolio management adds consistency, integration, formalization and due diligence to project selection
- *The coordinated management of all projects within a portfolio delivers benefits beyond the results of independently managed projects*

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Why Project Portfolio Management

- Strategic decisions regarding the project portfolio are made in a broader context that must carefully consider both an organization's internal project competencies and capacity as well as external environmental data
- Project portfolio management promotes and manages the sharing of resources, technologies, platforms and components across a multitude of projects
- *By leveraging resources across an entire portfolio, operations are optimized, thereby enabling a higher return on investment*

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Portfolio Management Benefits

- The organization that initiates project portfolio management benefits by:
  - Making *fact-based* project and portfolio level *decisions*
  - *Aligning projects* and staff *with strategic objectives*
  - Prioritizing projects to effectively *balance resource capacity*
  - Bringing consistency, transparency, oversight and objectivity to project selection
  - Gaining standardization, measurement, governance and oversight of project execution
  - Emphasizing business value, financial return and risk awareness in project selection

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Seek Business Value

- With respect to measuring project value, it's no longer just about whether any given project meets specifications, or is on time and under budget
- Today, it's all about whether or not a project creates business value
- Indeed, **maximizing business value is the real key to project selection and prioritization**
- We use project portfolio management to **increase the value** from our project investments and to **avoid wasting resources**

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Build a Business Case

- Given that business value is the driver, the starting point of project selection and prioritization is the **business case**
- A business case:
  - Documents the reasoning for initiating a project or task
  - Substantiates the viability and justifies the resource investment in a proposed initiative in terms of benefit realization and strategic alignment
  - Documents the proposed project's costs and benefits
  - Documents the relative strengths, weaknesses and risks associated with a given project investment proposal

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Build a Business Case

- **The business case is an integral part of the project portfolio management process**
- The business case is the single-most important document in helping the organization's top decision making team to understand the business value of an investment or business opportunity
- A business case **demonstrates how the proposed investment fits within the broader strategic context** and contributes to an organization's goals and objectives

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Tell A Story

- The business case document tells stakeholders about **the who, what, when, where, how and why of the project** as well as the financial costs and benefits
- The business case is the one place where **all relevant facts are** documented and **linked together into a cohesive story**

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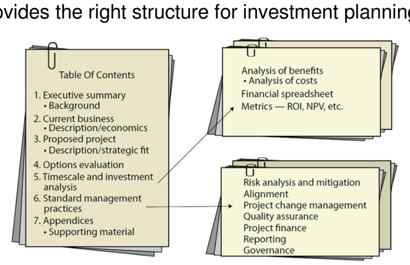
Standardize Business Cases

- An **organizationally prescribed business case format** provides the right structure for investment planning



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Business Case Elements

- What a formal business case should document:
  - The specific business problem or opportunity to be addressed through the proposed project initiative
    - How the proposed initiative solves the identified problem or exploits the opportunity
    - Your answer to the question *"Why do we need to complete this proposed initiative at all?"*
    - Your answer the question *"Why do we need to complete the proposed initiative now – what is the sense of urgency?"*
  - The overall goal is *to make the case for a specific approach or proposal for solving an operational problem or exploiting a given market opportunity*

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Business Case Elements

- What a formal business case should document:
  - The scope of the proposed initiative
    - Specifically consider what ***is*** and what ***is not*** in scope
    - As a general rule project scope should be limited to accomplishing the specific goals or objectives specifically defined for a given project
  - An explanation of how the project goals and objectives aligns with the organization's strategic priorities
  - The key methods and assumptions used in preparing and presenting the facts and figures included in the business case
  - The identification of and basis for the assumptions used in constructing the business case
    - Clearly state assumptions, estimates and any calculations used; describe any weaknesses in your underlying data

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Business Case Elements

- What a formal business case should document:
  - Discuss the range of specific options considered
    - List the possible alternatives considered and why they would or would not work
    - Discuss why the proposed initiative is the preferred or optimal course of action
  - The project costs, benefits (outcomes) and cash flows
    - Costs and benefits should be presented in financial terms
    - Present non-financial benefits as hard data when possible
    - Include a cash flow projection based upon the project timeline
    - *The business case should emphasize not the action to be taken, but the "benefits possible" – the results of the action*
  - A risk-based assessment of the achievability of the project (capability, affordability, risk etc.)

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Business Case Elements

- What a formal business case should document:
  - An action-oriented implementation timeline
  - Measures for gauging project performance or progress toward each objective
  - Conclusions and recommendations
  - Opposing arguments and your responses to them

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Right Sizing the Business Case

- The length of the business case document should be proportionate to the size of the project and its impact on the business
- Keep the length of the business case document to an essential minimum
- Ensure the document:
  - Includes only relevant and necessary content
  - Stays on topic
  - Presents relevant information in a clear and concise manner
  - Focuses on enabling management decision-making

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Making the Business Case Stronger

- What makes for a 'strong' business case?
  - **Tangible business value** – *show your decision-makers the money! Projects viewed more favorable are those with a:*
    - *A higher return on investment (ROI)*
    - *A more favorable cost/benefit ratio*
    - *A quicker payback*
    - *A smaller up-front investment*
  - **Strategic alignment** – a project that moves the organization closer to one or more strategic objectives is more desirable
  - **Rapid results** – projects that can be delivered within a shorter time periods are preferred other longer duration projects

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Business Case Usefulness

- A good business case helps the organization to determine exactly what it wants to achieve and how it will do so, rather than just being used to obtain funding
- The business case should be written not to seek a single ‘all-or-nothing’, ‘yes or no’ or ‘go-ahead’ decision but to *support a process of gradually increasing commitment over time*
  - It also follows that at any time the decision could be to discontinue funding a project that is no longer strategically significant
- This is a sound approach and enables the organization to take into account changing circumstances rather than locking itself into accepting a business case made at given moment in time

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Business Case Usefulness

- It is important that the arguments used in the business case are plausible
  - Support your arguments and statements with evidence wherever possible
  - Evidence may be in the form of examples, statistics and survey results

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Quantifying Benefits

- Decision making criteria can be listed as “results” and can be financial (ROI,NPV, IRR, payback period etc.) or non-financial
- Try to quantify the benefits financially, if possible, in order to make it easier for decision-makers to decide if the project is worthwhile
  - If your project will increase profit, then present detailed figures as evidence
- While non-financial impacts contribute to strategic priorities and business objectives, they cannot easily be assigned values for lowering costs or increasing revenues
  - If the primary benefit is improved customer care or staff efficiency, then explain how this will happen and what the effects will be

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Quantifying Benefits

- It's OK to estimate
  - In some cases you will have to, but be realistic and explain your logic
- Include assumptions
  - Ensure people can understand how you arrived at a conclusion
  - Determine proof needed and provide evidence
  - Back up your assumptions and estimates with relevant evidence, using industry data if possible and anecdotal evidence as well

Assumptions Affecting Investment			
Number	It is assumed that:	Effects on investment:	Reliability Level: High/Medium/Low
Assumption 1			
Assumption 2			
Assumption 3			

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Strategic Assessment

- Strategic assessment answers the following questions:
  - How does this project help the organization meet its key objectives?
  - Why is the project important *now* (as opposed to in another year)?
  - What are the consequences of *not doing the project*?

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Strategic Impact

- It is vital to consider how the project will impact the organization on an overall basis
- This requires having a vision of how the project will impact the future – how it will potentially change the big picture
  - This vision of the future can be described by answering the question: "How will things be different when this problem is solved?"
  - The business case should describe how the project will support and add to this vision of the future

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Strategic Context

- Strategic context establishes a sense of urgency for a given initiative and clearly defines the need for the investment
- How can we establish the strategic context of a project initiative?
  - Ask and answer the following questions at the outset of every business case
    - **Where are we now?**
      - Describes the current business environment
    - **Where do we want to be?**
      - Describes the business objectives
    - **What is the business need?**
      - Describes the problem or opportunity facing the organization and the associated proposed investment
    - **What has triggered the need for change?**
      - Describes the drivers for change
    - **What are we trying to achieve?**
      - Describes the business' desired outcomes
    - **What is the strategic fit?**
      - Describes how the proposed investment maps to the organization's goals and priorities

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Project Selection Criteria

- The Business Case supports decision-making by senior executives
- The understanding of how funding decisions will be made, who will make them and with what other requirements for funding you are competing is as important as the business case itself
- Decision criteria presented in the business case should align with the organization's overall strategy and objectives
- Decision criteria should be confirmed with senior executives prior to the evaluation of alternatives

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Risk Assessment

- Risks are inherent in the implementation of any project
- A discussion of the likely risks associated with the proposed initiative and how they will be addressed or mitigated should be described within the project's business case much like they are in the prospectus for a stock market offering
- A good risk event statement includes what might happen and its effect on a project
- For example "The occurrence of one or more sustained bad weather episodes may delay project completion" is a good risk event statement

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Risk Assessment

- It is important to consider if the organization has the capability to deliver on the benefits promised
  - Does the organization have the needed skills and experience to execute this project successfully?
  - Are enough people resources with the needed skills and experience available to execute this project successfully?
  - Has the organization successfully completed similar projects in the past?

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Understand Overall Risk

- A project portfolio consisting of too many high-risk projects will be a management challenge
- Understanding and assessing the risks associated with an individual project risk enables the entire project portfolio to be balanced in terms of benefit risks and enhances the chances of achieving some level of post-implementation project benefits

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Project Classification

- Some organizations are project-based meaning the primary source of their revenues is based upon delivering contractual projects
- However, other organizations perform projects mostly on an internal basis as a means to grow the company
  - In some cases, both situations may exist
- Regardless of whether projects are internal or external, *the alignment of project backlog to strategic intent is critical* to the long-term position of the company

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Project Classifications

Project Classification	Definition
Strategic	A project that promises to create substantial future business value
Operational	A project undertaken to make the organization more efficient
Compliance	A must-do project required to comply with government regulations
Contractual	A project-based organization recognizes revenue by delivering on contractual projects
Goodwill	A project that promotes or demonstrates that the organization is a good corporate citizen or is a socially responsible organization

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Project Selection

- Strategic decisions regarding the project portfolio should be made in a broader context and should carefully consider both the internal competencies of the organization as well as external environmental data

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Project Selection

- Project selection reasons that **a firm's resources are assigned to the highest-value opportunities**
- A **standardized process** for preparing the business case along with a **standardized business case template** enables the comparison of multiple proposed investments on a level playing field
- Such standardization is at the heart of project portfolio management
- Standardization adds a higher degree of transparency, thoroughness and objectivity to the overall project evaluation process

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Screening Criteria

- To compare various options, evaluation criteria needs to be identified and they should be strategically and contextually relevant
- **Strategic fit and business needs**
  - Meets agreed-upon investment objectives, desired business outcomes, related business needs, and service requirements
  - Is aligned with the organization, provides synergy, and supports other strategies, programs, and projects
- **Potential achievability**
  - Is likely to be delivered in view of the organization's ability to assimilate, adapt, and respond to the required level of change
  - Matches the level of available skills that are required for successful delivery
- **Potential affordability**
  - Meets the sourcing policy of the organization and likely availability of funding
  - Matches other funding constraints

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Screening Criteria

- Consider the investment worthiness of the project
  - *Develop hurdle rates that every project must meet to be accepted*
- Consider the alignment of the project with the strategic objectives of the organization and their ability to advance the organization's strategies
  - *Use strategic intent to drive project selection*
  - *Extract strategic intent from business documents such as mission and vision statements and strategic plans*

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Screening Criteria

- Consider the risks associated with successful project execution and completion
  - *What's our track record?*
- Consider how much risk is associated with the realization of project benefits
  - Project managers must make assumptions about the dollars, dates, deliverables, and resources that are associated with project development
  - The predictions associated with the realization of these assumptions translate into project risk
    - *Are the estimates and predictions soundly based?*
    - *Are the risk levels reasonable relative to the benefits proposed?*

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Strategic Alignment

- It is often difficult for organizations or the people who comprise them to understand that they cannot undertake as many projects as people have good ideas or intentions
- The concept of strategic alignment dictates that a higher-priority project should take precedence while the lower-priority project is either put on hold or cancelled altogether if it is no longer considered relevant
- The key is to *focus on the value the project brings to the organization* as demonstrated through a strong business case

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Be Willing to Say No

- Good strategy execution requires leaders who are **willing and able to say no** to a wide variety of actions and interests
- Strategy is at least as much about what an organization does not do as it is about what the organization does do
- **Every organization needs a strategic framework that serves as the guiding context for all actions** – this framework defines what the organization will *and will not do*
- This necessary strategic framework is the essence of project portfolio management

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Project Selection

- **Use multiple criteria** in the selection of projects; include a balance of criteria, including strategic alignment, financial benefits and feasibility
- ***Vary the project selection and funding criteria as business conditions change***
- **Have the willingness to stop, postpone or reconfigure projects**, including ‘in flight’ projects, as their actual or relative value to the organization changes and to reallocate previously committed resources

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The Project Management Office

- The project management office (PMO) is a centralized group of people (or department) created for the purpose of applying sound and consistent project management skills and techniques throughout the organization
- A PMO brings accountability, visibility, and a sense of discipline toward how the organization manages the various projects it must undertake
- A PMO promotes organization-wide consistency with regard to portfolio management objectives, processes, roles, and responsibilities
- A PMO is a cost-effective vehicle for educating and engaging staff around project selection and project management processes

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The Project Management Office

- The service provided by a good PMO is the ability to prioritize projects that are truly the most important and to allocate resources accordingly
- These may be projects that are strategic to a company's future growth, or they may be projects that are necessary to make this month's payroll
- Every circumstance is going to be different, but it takes the objective group found in the PMO to manage and prioritize a company's portfolio of projects

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The Project Management Office

- The project management office will:
  - Develop standardized processes for how projects are to be managed within the organization
  - Develop standardized reporting processes
  - Transcend organizational boundaries and develop a set of processes that can work across all functional departments within the organization
  - Develop a standardized process to prioritize projects that are truly the most important and to allocate organizational resources accordingly
  - Collect and publish a set of best practices for project selection and governance

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Project Management Competency

- The ability to successfully scope and deliver projects can be a competitive advantage – a strategic differentiator
- Therefore, organizations should develop organization-wide competencies in project management if they are to execute strategy effectively
- For project-based organizations, the design and implementation of *a project-oriented organizational structure* can also be a strategic differentiator
- The project management office should be instrumental in understanding, developing and disseminating organization-wide project management competencies

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Project Performance Management

- Performance measurement involves collecting and analyzing project information to determine where the project stands and to predict future status and progress
- Successful project management requires:
  - Active monitoring of project status
  - Constructive analyses of variances
  - Formal project plans for each project
  - Regular status review meetings
  - An attitude of "no surprises"
  - Measuring and reporting of performance against plans

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Measurable Results

- **Every project should be measured**
- Project success requires *a combination of outcome or product success and project management success*
- Different stakeholders will use different measures
- Get the measures that will be used to evaluate the effectiveness of each project documented and agreed to right from the start
- Use periodic progress checkpoints throughout the life of the project
- If projects are failing under their own weight should they be continued?

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Measurable Results

- Most people have an intuitive appreciation for what success is, but defining and measuring success is a bit tougher – *it's more than "I'll know it when I see it"*
- Useful end-result, end-product or end-of-project success measures are often hard to define
- Many of the potential measures such as revenue and cost savings are beyond the direct control of the project team and will not be measurable until long after the project is finished
- When this is the case, the team must determine what it *can* influence

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Measurable Results

- To help overcome the tendency to oversimplify, use a structured format for developing project success criteria
  - For example:
    - Stock intro: "one key success measure for this project is to have …"
    - Measurable item: "the completion date of every major milestone"
    - Comparison statement: "within"
    - Some number: "one week of the baseline schedule date"

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Measurable Results

- Use the following checklist to help ensure that your measures are good measures
  - They should be:
    - Complete—anything unmeasured is likely to be compromised
    - Relevant—variances clearly indicate a need for corrective action
    - Valid—measuring what you intended to measure
    - Easy to understand—so that people will accept them
    - Economical to obtain—know the value of the information
    - Timely—in comparison to the result measured

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Measurable Results

- Use of a project finance gating technique such as "earned value," which ties project funding to the achievement of milestones and deliverables, is an example of how to link the business case to the project plan

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Use Investment Checkpoints

- Use project investment checkpoints during the execution of major projects
  - Investment checkpoints involve revisiting the investment justification, ensuring that the project still addresses the current strategic objectives and that if continued, and that the project will still deliver sufficient net benefits
- Using investment checkpoints allows for stopping, postponing or reconfiguring projects – *including 'in-flight' projects* – as their actual or relative value to the organization changes
- Investment checkpoints also provides the means for *reallocating committed resources as priorities change*

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Project Governance

- **The full complement of projects in any organization should be coordinated and controlled** by a central project management office (aka the PMO) or a senior executive with overall responsibility for project governance and the monitoring of overall project performance

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Develop a Project Inventory

- Organizations may have scores, if not hundreds of projects ongoing at any point in time
- However, they rarely have a firm grasp on the type and range of these projects
- Thus, the first step in improving an organization's project execution strategy is to identify and document all the projects that are on deck or that are underway throughout the organization

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Develop a Project Inventory

- Create a comprehensive list of all your projects
- Examine each project and rank its importance according to established criteria
  - A comprehensive list of your projects may expose waste and unnecessary spending
  - The result is a strategic master project plan of prioritized projects
- Analyze your projects, create summary tables that show planned and actual time spent on project tasks
- Identify resources that have too much work and those that have too little
- At the end of each project, conduct a post-project review to gather information about what went wrong, what worked and what could be improved on during future projects

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A Business Case is Vital

- Organizations must be very strong and diligent in making sure each project has a business case and is aligned with its' strategic objectives
- Take an honest look at the organization's current portfolio of projects
- Every single project must be supported by a business case
  - *Pull the plug on any project that does not have a business case!*
- Are the projects that are being done really the ones that should be done?

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Project Alignment

- Once projects are captured they must then be aligned to the strategies or goals of the organization
- This step entails comparing each project, either proposed or ongoing, to the strategic goals to determine if such alignment exists
- Only those projects that impact organizational strategy in a substantive way should be resourced and continued

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Right Projects, Right Reasons

- The right projects are important because:
  - No matter how small or seemingly unimportant, **every project has a cost to the organization**
  - **The wrong projects are costly distractions** – projects lacking strategic relevance or that produce little or no business value are costly distractions
  - **There's too much at stake and time is too short in today's business environment to be working on the wrong projects**
- *Selecting and working on the right projects for the right reasons is where we need to be!*

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Your Session Takeaway: A Plan

- What can you do immediately upon your return to the office?
  - Initiate your own 90 day project to take advantage of project portfolio management best practices in your organization by completing these steps:
    - Learn your business strategy
    - Conduct a project inventory – include ALL projects now underway with organization
    - Develop a formal business case structure and business case document template
    - Develop formal project selection and prioritization criteria
    - Assess the current state of ALL projects – identify which projects are keepers and which projects are suspect and should be slowed or stopped

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What You've Learned Today

- Manage all projects using the common framework of project portfolio management – *project portfolio management and project management offices aren't just relevant to/for IT projects!*
- Link the organization's project workload to its' business strategy by evaluating, selecting and prioritizing all projects against strategic intent and estimated business value
- Use a formal business case as the basis for choosing and executing only the highest value, *strategically aligned* projects

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Thank You!

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