Organization Strategy and Project selection

Strategy – Basic Concepts

- **Competitive advantage** — operating with an attribute or set of attributes that allows an organization to outperform its rivals.
- **Sustainable competitive advantage (SCA)** — one that is difficult for competitors to imitate.

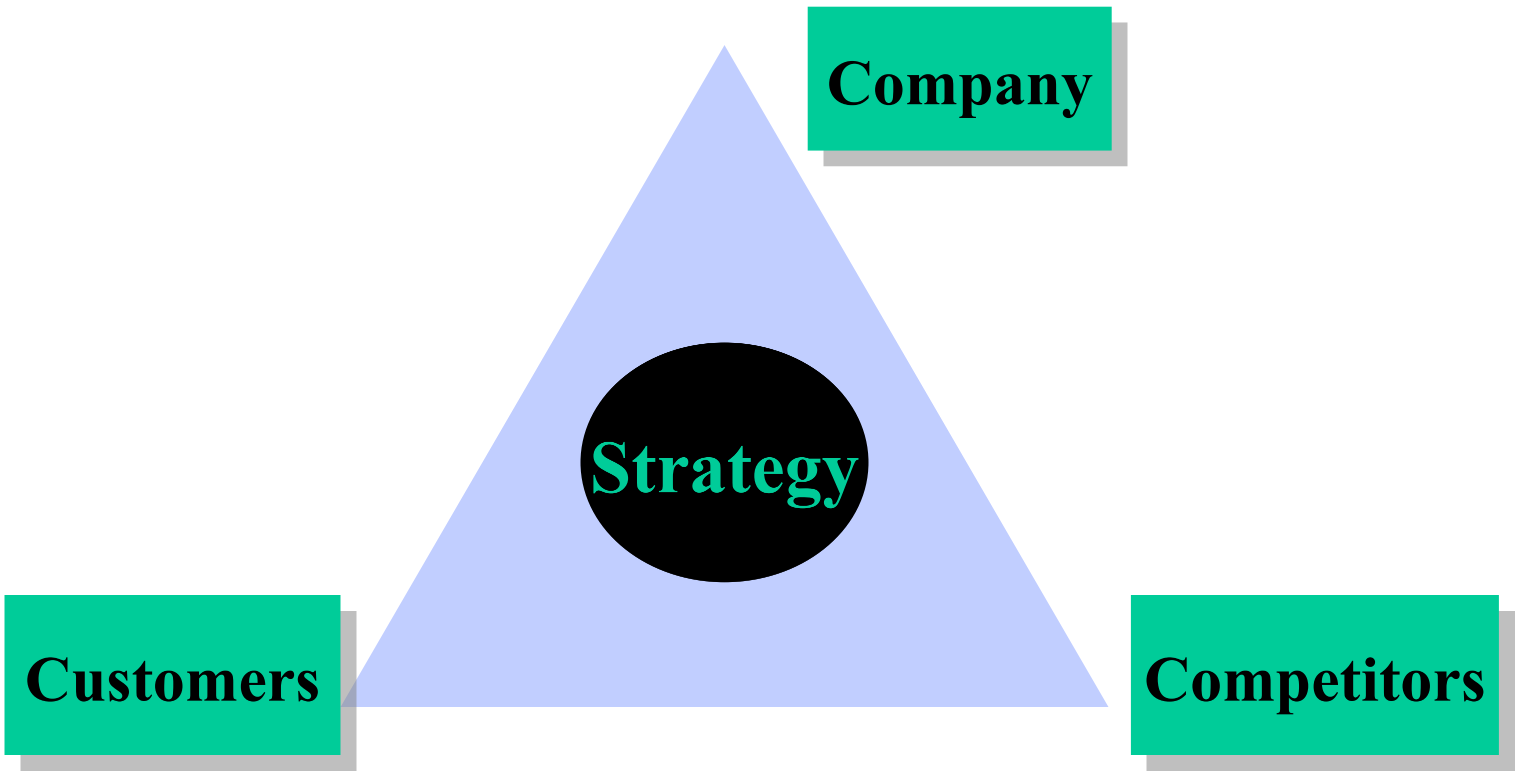
What is Strategy?

Strategy — a comprehensive transformation action plan that identifies long-term direction for an organization and guides **resource utilization to accomplish organizational goals** with sustainable competitive advantage.

Strategic intent — focusing all organizational energies on a **unifying and compelling** goal.

What is Strategic Management?

Strategic management — the process of formulating and implementing strategies to accomplish long-term goals and sustain competitive advantage.



Why?

- Problems encountered when strategy and projects are not linked
- Generic methodology ensures integration by creating strong linkages of project **selection and priority** to the strategic plan

Why Project Managers Need to Understand the Strategic Management Process

- 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.

Strategic Planning

Requirements:

- Mission Statement
  - Statement that makes it clear what business the company is in
- Objective statements
  - Series of statements that express an organization’s qualitative and quantitative goals for reaching a desired future position
  - Sometimes call *Critical Success Factors* or *Corporate Values*
- Competitive Strategy
  - Method by which an organization attempts to achieve its mission and objectives

The Strategic Management Process: An Overview

- Strategic Management
  - –Provides the theme and focus of the future direction for the firm.
    - **Responding to changes** in the external environment—environmental scanning
    - **Allocating scarce resources** of the firm to improve its competitive position—internal responses to new action programs
  - –Requires strong links among mission, goals, objectives, strategy, and implementation.

Strategic Management Process

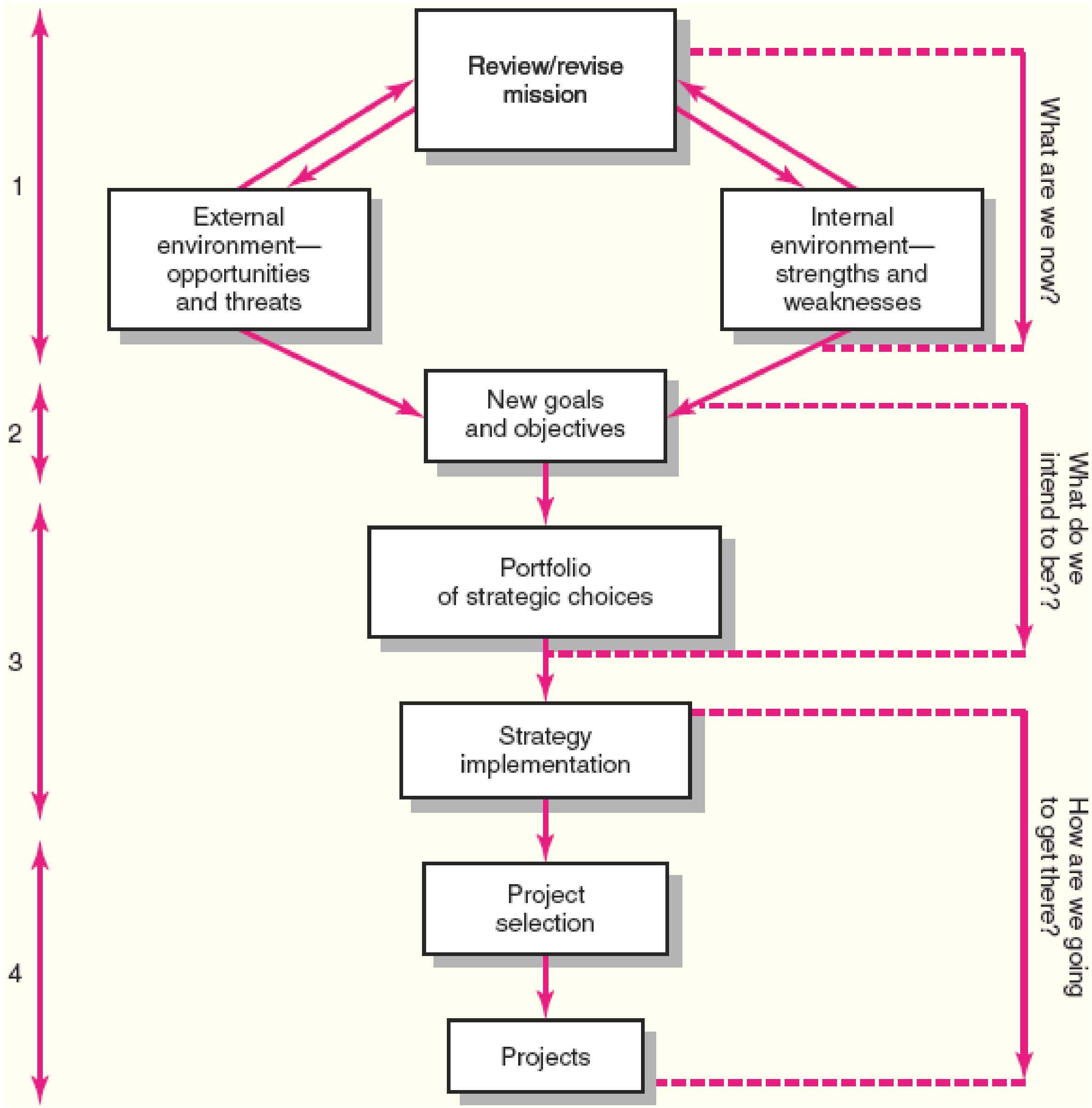
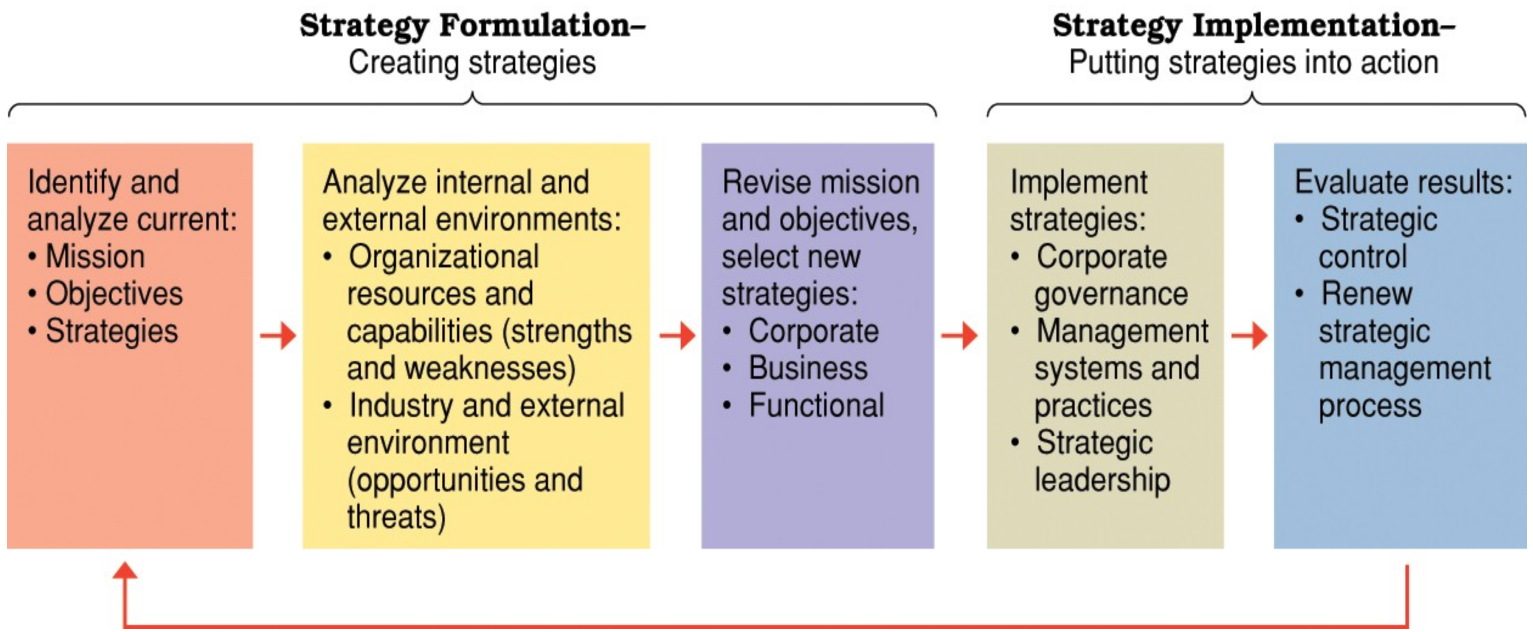


FIGURE 2.1

Strategy formulation and implementation in the strategic management process.



Strategic Management Process (cont'd)

- Four of Activities of the Strategic Management Process

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

Review and Define Organizational Mission

1

Mission identifies “what we want to become”.

Mission identifies the scope of the organization in terms of products and services.

Traditional components found in mission statements are:

1) Major products and services

2) Target customers and markets

3) Geographical domain

Long Range Goals and Objectives

Objectives translate the organization mission into specific and concrete, measurable terms

2

Analyze Strategies to reach Objectives

3

Answers the questions of what needs to be done to reach the objectives

Assessment of internal and external environments; internal strength and weaknesses of the enterprise

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**	

EXHIBIT 2.1

Implement Strategies through Projects

Answers the question of how strategies will be realized, given available resources

2

Project Portfolio Management Problems

- 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
  - The multiproject environment creates interdependency relationships of shared resources which results in the starting, stopping, and restarting projects.

Portfolio of Projects by Type

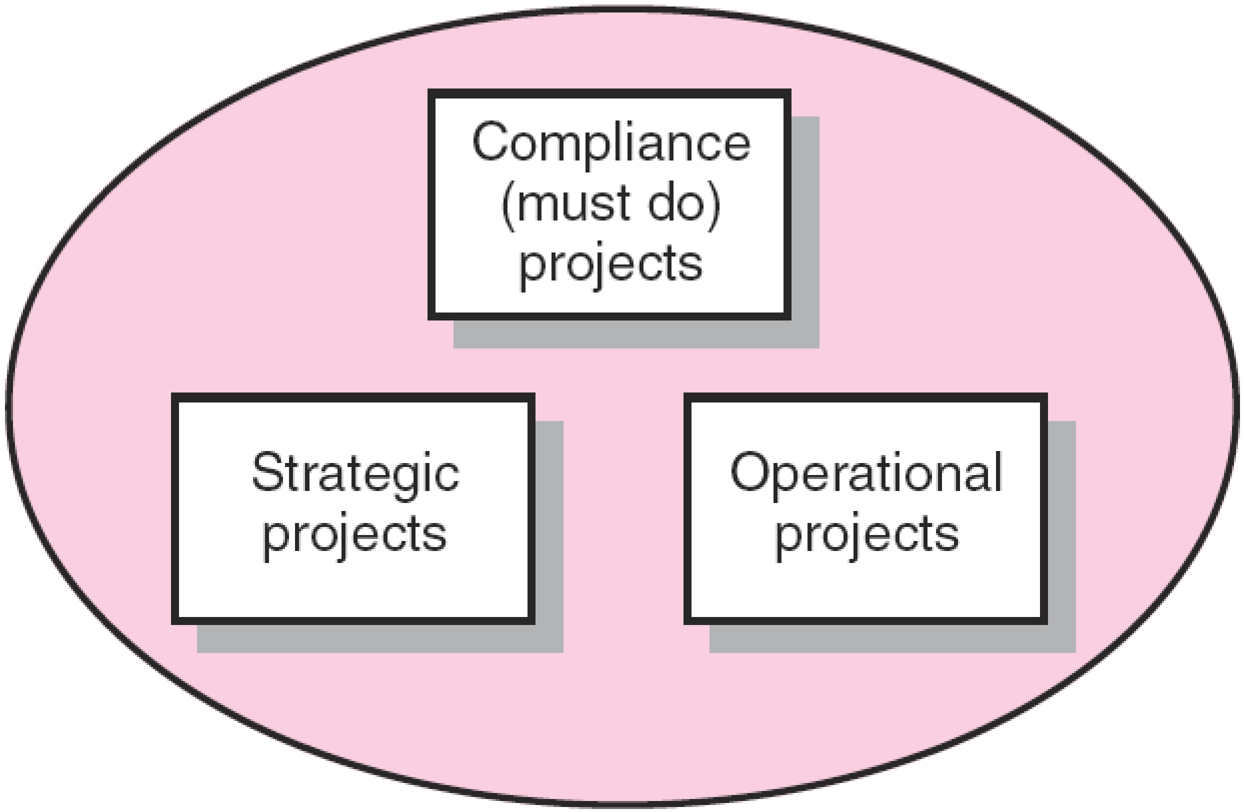


FIGURE 2.2

A Portfolio Management System

Classifications of the Project

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

Financial Models

- The Payback Model
  - –Measures the time it will take to recover the project investment.
  - –Shorter paybacks are more desirable.
  - –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: the project meets the minimum desired rate of return and is eligible for further consideration.
    - Negative NPV: project is rejected.

$$\text{Project NPV} = I_0 + \sum_{i=1}^{n} \frac{F_t}{(1+k)^t} \qquad \text{where}$$

I_0 = Initial investment (since it is an outflow, the number will be negative)

F_t = net cash inflow for period t

k = required rate of return

Example: Calculating the Payback Period and Internal Rate of Return

Both projects are estimated to have constant annual savings over the next 5 years.
Payback criteria for this company- must be within 5 year horizon

Project A	
investment	700
annual savings	225
payback period	3.1
IRR	32%
Project B	
investment	400
annual savings	110
payback period	3.6
IRR	28%

Example: Calculating the Net Present Value

Reconsider the same 2 projects with a 15% discount rate, 5 year Time Horizon

yearly rate of return	15%						
year	0	1	2	3	4	5	totals
Project A							
outflows	-700						-700
inflows		225	225	225	225	225	1125
undiscounted net return	-700	225	225	225	225	225	425
discounted net returns	-700	195.7	170.1	147.9	128.6	111.9	54.2
				or use the NPV formula:			54.2
Project B							
outflows	-400						-400
inflows		110	110	110	110	110	550
undiscounted net return	-400	110	110	110	110	110	150
discounted net returns	-400	95.7	83.2	72.3	62.9	54.7	-31.3
				or use the NPV formula:			-31.3

Project Screening Matrix Example

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 *n*	5	5	7	0	10	10	8	83

FIGURE 2.3

Non-Financial Criteria

Pure Payback/NPV analysis will not help with the following….

- To capture larger market share
- To make it difficult for competitors to enter the market
- To develop an "enabler" product
- 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 reduce the company's carbon footprint or meet other sustainability/ecological criteria
- etc….

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 bring projects to 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.

Project Screening Process

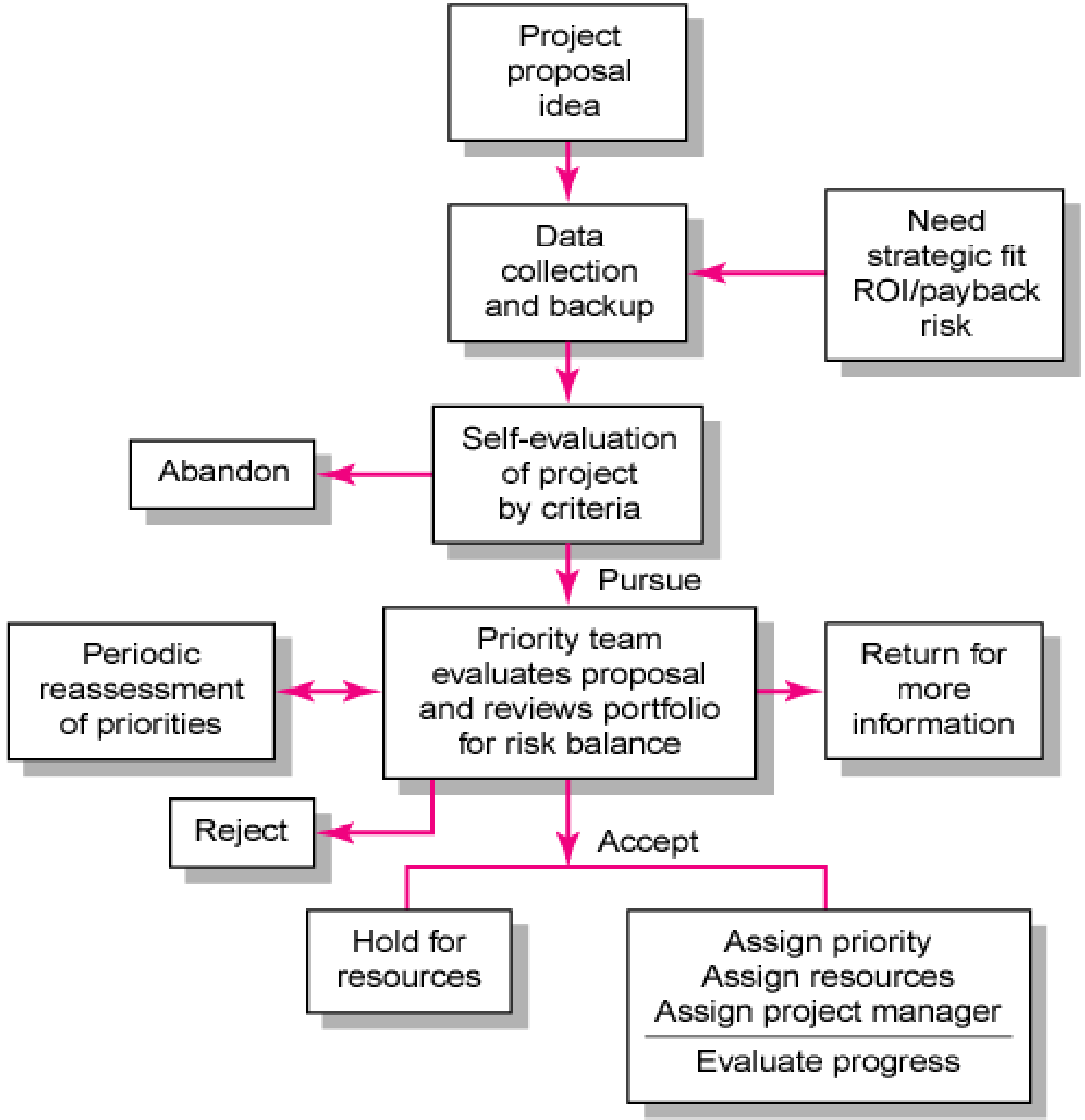


FIGURE 2.5

Managing the Portfolio

- Senior Management Input
  - –Provide guidance in selecting criteria that are aligned with the organization’s goals
  - –Decide how to balance available resources among current projects
- The Priority 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

Checklist Selection Model

An Example of some questions to ask…

- Strategy alignment: What specific organization 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?
- Benefits: What is the value of the project to this organization?
- Organization culture: Is our organization culture right for this type of project?
- Approach: Will we build or buy?
- Training/resources: Will staff training be required?
- Finance: What is estimated cost of the project?
- Portfolio: How does the project interact with current projects?

Project Portfolio Matrix

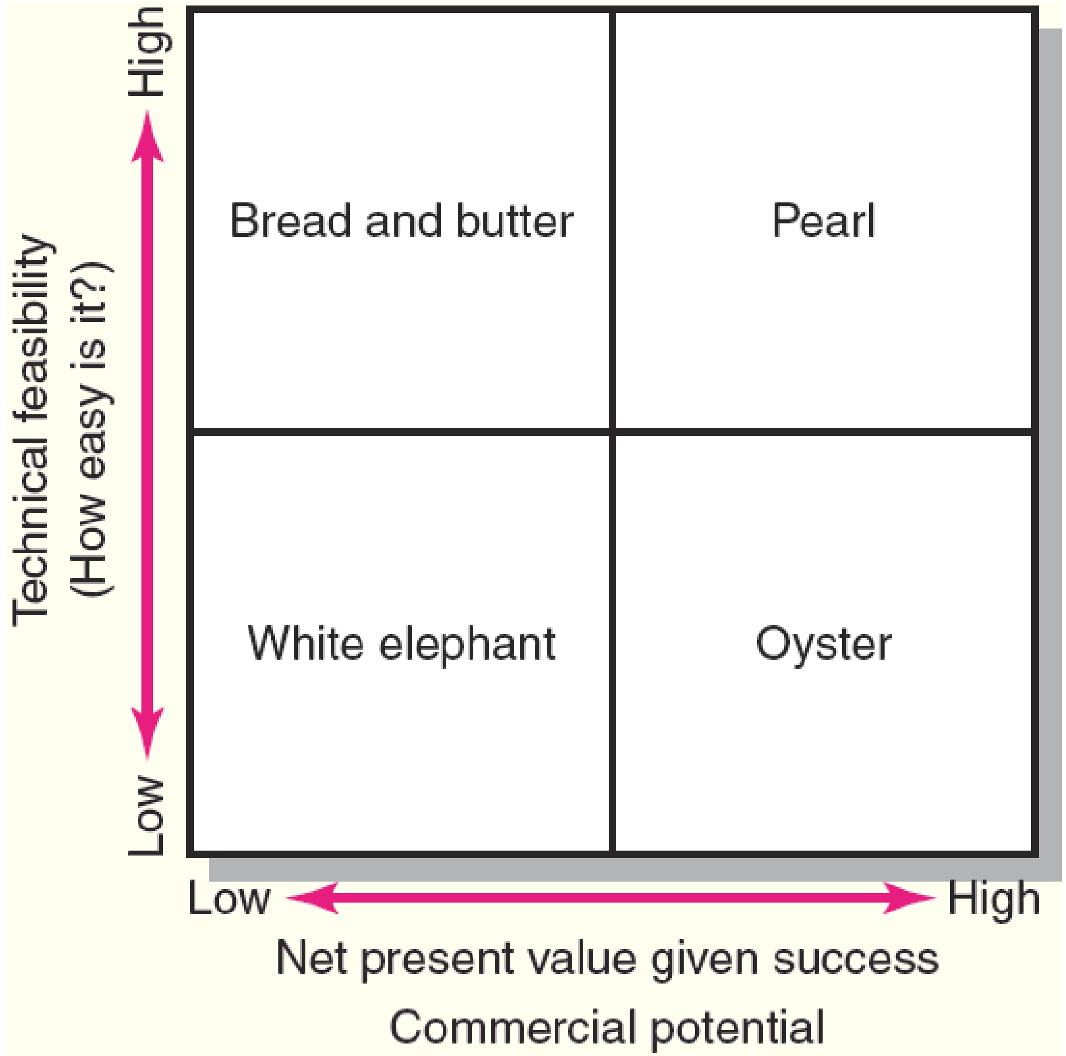


FIGURE 2.7

Project Portfolio Matrix Dimensions

- Bread-and-butter projects
  - Involve evolutionary improvements to current products and services.
- Pearls
  - Represent revolutionary commercial advances using proven technical advances.
- Oysters
  - Involve technological breakthroughs with high commercial payoffs.
- White elephants
  - Projects that at one time showed promise but are no longer viable.

Possible Evaluation Criteria When Classifying And Ranking Projects

Evaluation Criteria	Description
Value Chain Analysis	Extent to which activities add value and costs when developing products and/or services
Strategic Alignment	Extent to which the project is viewed as helping the organization achieve its strategic objectives and long-term goals
Potential Benefits	Extent to which the project is viewed as improving profits, customer service, and so forth and the duration of these benefits
Resource Availability	Amount and type of resources the project requires and their availability
Project Size / Duration	Number of individuals and the length of time needed to complete the project
Technical Difficulty / Risks	Level of technical difficulty to successfully complete the project within given time and resource constraints