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FEATURED PAPER

The Strategic Role of Project Management

By Don J. Wessels

Project management has emerged as a strong discipline practiced by highly trained, certified professionals as organizations have come to realize they cannot stay in business if they cannot manage their projects. However, many companies are still limiting the application of project management to the tactical level. Here, of course, it is vital to the very survival of the enterprise to ensure products are designed, created and delivered to internal and external customers efficiently and effectively. In addition, savvy organizations also recognize project management is a critical strategic tool. They practice project portfolio management to select, manage and support a portfolio of projects that have the best chance of moving the enterprise forward, keeping it vibrant in the marketplace and returning maximum shareholder value. As departments and divisions compete for scarce financial and human resources, strategic project portfolio management provides the rational decision framework necessary to make the right project investment decisions that enable organizations to compete and win in the global economy.

The Evolution of Strategic Project Management

Project management began as a tactical tool to facilitate the execution of individual projects and programs, such as building a new facility, installing new hardware or implementing a new software initiative. These early days of project management coincided with the business schools' push toward Management by Objectives, first popularized in 1954 by Peter F. Drucker in *The Practice of Management*. It is a process of agreeing upon objectives and obtaining buy-in from management and employees. However, Management by Objectives proved to be a failure. "Management by objectives works – if you know the objectives. Ninety percent of the time you don't," said Peter Drucker.

While Management by Objectives required a precise written description of objectives and timelines for their monitoring and achievement, it did not enable organizations to evolve over time by accomplishing *strategic* objectives, such as entering a new market, increasing revenues, reducing costs or returning greater value to shareholders. Soon the new rallying cry became Management by Projects, evolved after Tom Peters launched a management revolution with his book, *In Search of Excellence*. Even Peter Drucker, in his later years, jumped on the bandwagon as he realized that moving an organization forward required project management skills.

Organizations now use project management as a tactical tool to execute projects. Projects are essential to the growth and survival of organizations today. They create value in the form of improved business processes, are indispensable in the development of new products and services and make it easier for companies to respond to changes in the environment, competition and the marketplace. Often changing business needs can be satisfied only through IT solutions, which require projects to implement.

However, the Standish Group's 2004 Third Quarter Research Report, culminating from a decade of IT project surveys, shows a reversal of gains that had been evident in recent years: Five percent fewer projects were deemed successful than in 2003; the IT project failure rate increased by 3 percent, while challenged projects increased by 2 percent (The Standish Group International, Inc., *2004 Third Quarter Research Report*, Resolution of Projects, 20 May 2005, www.standishgroup.com/sample_research/PDFpages/q3-spotlight.pdf).

Further, according to the Office of Management and Budget, March 26, 2003,

"…771 projects included in the fiscal 2004 budget – with a total cost of $20.9 billion – are currently at risk." Software development projects in particular are in crisis: Nearly 70 percent of projects fail (Standish); 50 percept are rolled back out of production (Gartner); 40 percent of problems are found by end users (Gartner); and 25-40 percent of all spending on projects is wasted as a result of rework (Carnegie Mellon). The bottom line is that existing approaches and tools simply don't deliver the improvements that are needed.

Symptoms of Defective Strategy

- Project managers fight over resources
- Project priorities frequently change
- Managers have authority to unilaterally approve and fund "pet" projects
- Projects are launched regardless of the availability of resources
- When a goal is achieved the expected improvement is not achieved
- No linkage between projects and strategy

Source: Gerald I. Kendall and Steven C. Rollins**,** *Advanced Project Portfolio Management and the PMO*, J. Ross Publishing, 2003.

The root cause of these failures is a lack of understanding of business requirements from a strategic point of view. Forrester Research, for example, states, "Poorly defined applications have led to a persistent miscommunication between business and IT that largely contributes to a 66% project failure rate for these applications, costing U.S. businesses at least $30B every year" (www.iiba.com/events.cfm#pww).

Clearly, bottom-up management is not enough. Organizations must:

- Define where the organization needs to be
- Understand capacity to field project teams to effect change
- Invest in the best projects in terms of added value
- Execute flawlessly
- Continually monitor and manage project investments

The solution then is the application of project management as a *strategic* tool. According to *Managing Projects for Value*, by John C. Goodpasture (Project Management Institute, 2001), *strategy* is the term for the collective, actionable steps necessary to achieve goals and implement operating programs.

Since all projects proposed by an organization's departments and divisions compete for resources and support, strategic project management views all of the organization's projects together as components of a portfolio and makes strategic choices in their support. "While project management and program management have traditionally focused on "doing work right," portfolio management is concerned with "doing the right work," states the Project Management Institute's *Standard for Portfolio Management* (p. 3).

However, traditional strategic planning is not the right tool for project portfolio management. Strategic planning begins with initiatives and develops objectives for senior and mid-level managers who then push them down into the lower levels. While each level may accomplish its objectives, strategy remains limited to the executive level whose high-level initiative began the process while the lower levels still work according to the old, ineffective mantra of Management by Objectives.

Strategic project management differs from traditional strategic planning in the following ways:

- It aligns key business processes of strategic planning, strategic goal setting and enterprise project management.
- Using the analogy of financial portfolio, it allows the most effective use of constrained resources.
- Like a well-managed portfolio of investments, an efficiently managed portfolio of projects ensures a high ROI because projects can be managed together. The leadership team can select the right investment path from the mix of potential opportunities, including research initiatives, new

product development activities, information technology enhancements, internal business improvement projects and new business endeavors.

- Just as a financial portfolio changes over time with the short-term and long-term goals of the investor, portfolio management keeps projects aligned with the company's short-term, mid-term and long-term goals by making changes in individual projects as well as adjusting the mix of the portfolio. This focused alignment prevents the diffusion of effort that drains resources.
- Since project portfolio management improves visibility across different projects and their tasks, it also prevents resource conflicts from escalating to upper levels of management where they waste executives' time and effort.

Basics of Project Portfolio Management

The Project Management Institute (PMI) released *The Standard for Portfolio Management* in June 2006, to fulfill the need for a documented set of processes that represent generally recognized good practices in the discipline of portfolio management. According to PMI, "Portfolio management is the centralized management of one or more portfolios, … an approach to achieving strategic goals by selecting, prioritizing, assessing, and managing projects, programs, and other related work based upon their alignment and contribution to the organization's strategies and objectives. Portfolio management combines (a) the organization's focus of ensuring that projects selected for investment meet the portfolio strategy with (b) the project management focus of delivering projects effectively and within their planned contribution to the portfolio" (The Standard for Portfolio Management, p. 5).

The steps of portfolio project management are applicable to any enterprise: Assess the merits of the organization's various proposed projects, weigh them against each other and select and support those projects whose execution will deliver the greatest value to the bottom line. The drivers of a portfolio of projects are:

1. Where the company wants to go and what it needs to do to achieve the goal (e.g., improve its return on investment, increase shareholder value or gain market share).
2. Tactical concerns, such as improvement projects individual departments need to undertake in order to become more efficient or effective; e.g., cost reduction, staff reduction, getting to market faster.
3. Problems whose correction requires a project or program; e.g., lost data to support decisions, poor customer service, slow time to market.
4. The need for organizational change management initiatives that prepare people to move in the desired direction along with the organization.

The application of portfolio management permits the sharing of goals and the allocation of resources among these drivers so that projects and programs can achieve their strategic intent. PMI's *Standard for Portfolio Management* defines the following flow of control:

1. Strategic intent and prioritization provide direction for determining the financial resources that should be allocated to the portfolio.
2. The strategic intent is mapped onto a set of portfolio components (i.e., projects and programs) including their resource allocations. These components are managed according to the portfolio management principles outlined in this standard.
3. Each program corresponds to the delegated subset of the overall strategic intent, which it will deliver by means of the allocated resources.
4. Each project is defined by its contribution to the portfolio's strategic intent, and can then be managed according to principles published by PMI.

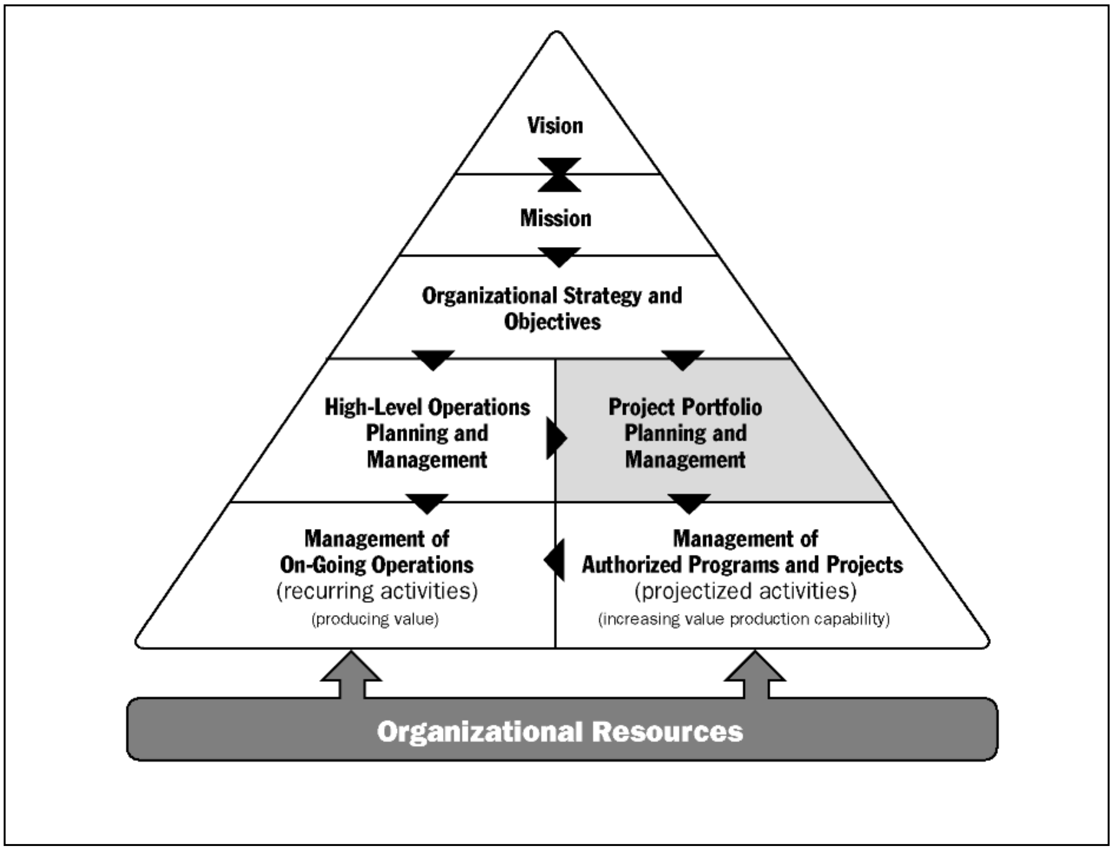

Figure 1: An organizational context of portfolio management

(from PMI's Standard for Portfolio Management, page 7, Figure 1-2, used with permission)

Here is the basic process: (a) Define the organization's overall strategic goals and objectives at the executive level; (b) pass these goals to the portfolio management function; (c) the portfolio manager selects, prioritizes and approves proposed portfolio components, ensuring that they are aligned to achieve the organization's goals; and (d) the portfolio manager reviews the portfolio to ensure it is balanced (short-term versus long-term return, risk to benefit) and negotiates the contributions of relevant strategic stakeholders (e.g., executive management, operations, program management).

Once the portfolio manager authorizes a component, program or project, management takes control of the component and applies the correct management processes to make certain the work is performed effectively and efficiently. The responsible project or program managers monitor planned-to-actual performance relating to time, budget, resources, quality and scope, and communicate consolidated information to portfolio management. To remain effective and aligned with organizational goals, the portfolio management function depends on updates from the strategic planning process regarding any strategic changes. This ensures any components no longer related to current goals can be discontinued rather than wasting resources. In return, the portfolio manager reports portfolio performance to the strategic planning process as it relates to achieving the organization's planned strategy.

Challenges and Solutions

Economic pressures, such as cost-constraints or inability to raise prices without losing customers, often force organizations to focus on the tactical and leave little time to think strategically. Those new to the process of strategic project management may encounter challenges in the following areas.

1) Executive championship. Without buy-in from high-level decision-makers and their ability to give guidance and support to the portfolio manager, strategic project management will fail. Why? Even in a strategic environment, portfolio managers sometimes succumb to the politics and temptations of selecting projects that are the pet projects of mid-level and lower-level managers. Even organizations that have established a formal Project Management Office need an executive champion, particularly when the office is understaffed. A well-known healthcare company began with an enterprise-level strategic set of projects and successfully completed three of its four projects. Then the process succumbed to politics, and the organization lost its strategic focus. After about four years, it was forced to scrap the fourth project in the portfolio at a cost of millions of dollars.

2) Business acumen. A portfolio manager needs much more business acumen than a traditional project manager because he or she has to decide which projects are necessary in order to meet the organization's strategic objectives.

3) A solid project management process. Leadership may do an excellent job of creating a strategic portfolio of projects and setting goals and ground rules. But if the actual practitioners – the project managers and their teams – are in a "just-do-it" mode or are inefficient or ineffective in managing their projects, all the strategic work is for naught. That's why strategy at the highest levels has to be paired with a consistent, repeatable process that ensures that practitioners at the project level are consistent and efficient. A repeatable approach is the strong foundation that ensures that each project is contributing to the value that was anticipated – on time and on budget within certain permissible variances. Training and certification of project management staff may be a wise investment.

A well-respected mid-tier consulting company, for example, has not learned how to transfer its strategic focus into tactical projects. As a result it is always in reactionary mode, changing direction and reshuffling project teams. The organization is still operating in the old strategic planning mode rather than using project management as a strategic tool.

4) Timeframes and budgets. Executing projects efficiently and effectively across the board depends on honest and realistic timeframes and budgets, so that projects are not set up for failure from the start.

5) Requirements' analysis. Portfolio managers need skill in gathering accurate requirements, analyzing them and managing them properly throughout a project's implementation to ensure a value-added outcome that improves an organization's bottom line. As a project proceeds, someone must keep an eye on value and scrutinize costs in comparison with benefits to ensure the project remains sound. Again, training in business analysis for portfolio and project managers may be necessary.

6) Stay the course. One of the most common mistakes leading to project failure is not staying the course. Even organizations that get off to the right start by establishing a strategic portfolio of projects and giving marching orders to management, often toss the entire strategy out the window as soon as anything goes wrong. They simply return to a reactive, just-do-it mode. It takes a great deal of business acumen and persistence to stay the course. Set the vision and strategy, and then leave it up to the portfolio manager to manage the projects for the best business value.

However, while being reactive can throw off the entire portfolio, the portfolio manager and executive champion also need to be flexible to adjust the portfolio as project risk becomes too high, new opportunities arise, change occurs in the marketplace or when a serious problem arises whose correction depends on a new project not previously represented in the portfolio. For example, when two Midwest banks merged about four years ago, the strategic portfolio to implement the merger consisted of 50 high-profile projects. Not only were these projects competing for resources, they had to be carefully prioritized to satisfy the needs of stockholders, regulators and customers. Wall Street expected the merger to produce financial gain, cost reduction and elimination of duplication and would have downgraded the bank's stock had the merger not gone smoothly. The process also had to be seamless for the sake of the customers of 300 branches. As these projects evolved and new issues arose, it became necessary to redesign the portfolio and reprioritize it to keep projects aligned with the tactical and strategic needs of all the stakeholders.

A powerful tool to get started with project portfolio management is a facilitated planning session. A trained external facilitator meets with key individuals to facilitate and outline the process. They layout goals, risks and issues on the table, assemble the portfolio and establish the strategic project management process. It is best when the facilitator comes from outside the company in order to avoid bias and politics in leading the team through the process.

Targeted Resource Management

Targeted resource management guarantees the right people and the right skills are in place to execute the selected projects. In addition to a broad base of functional employees that perform a company's ongoing, sustaining work, every organization also needs to allocate human resources for project-related work. However, since multitasking became popular over 10 years ago, organizations have hired staff for functional work and, whenever necessary, expected them to perform project-related work as well. As human resource costs grow in today's economy, the multi-tasking trend can be expected to continue.

Although some multitasking is always necessary, research has shown that it can be very inefficient. Scientific studies reveal that shifting mental gears costs time. Joshua Rubinstein, Ph.D., of the Federal Aviation Administration, David Meyer, Ph.D., and Jeffrey Evans, Ph.D., both of the University of Michigan, described the hidden costs of multitasking in "Executive Control of Cognitive Processes in Task Switching" published in the *Journal of Experimental Psychology: Human Perception and Performance*, Volume 27, No. 4, August 2001, published by the American Psychological Association (APA). To better understand the human capacity for multitasking and its limitations, the researchers studied patterns in the amounts of time lost when people switched repeatedly between two tasks of varying complexity and familiarity. The measurements revealed that for all types of tasks, subjects lost time when they had to switch from one task to another. Further, time costs increased with the complexity of the tasks.

When resources are booked to the hilt and beyond, they are slow to respond when change is necessary – in other words, always. That's why progressive organizations realize they can get better results if they stand down their resources a bit to give them time to think and be creative. Today, more and more companies are targeting distinct human resources for sustaining project work. While sometimes it may be necessary for the same people to fill both shoes, specialized personnel allocated to the project resource pool means faster and more efficient execution of projects.

Rebirth

Introduced several years ago, project portfolio management is now emerging stronger than ever before. The market for project and portfolio management software is evolving rapidly, offering tools designed to support the entire project life cycle, from portfolio management to resource allocation and detailed project and program planning. According to Gartner research, the total project and portfolio management software market grew 12.3 percent to more than $406 million in 2004. Gartner predicts the most likely scenario for project and portfolio management software new license revenue is an 11.4 percent compound annual growth through 2009, and that revenue will reach about $696 million during the forecast period.

As high-velocity change necessitates an ever-increasing number of projects that must be executed faster and with fewer resources, the demand for strategic applications of project management is high. The key to success is a portfolio manager who can maintain a strategic, enterprise-level perspective. Unlike a traditional project manager who is tactically focused, the primary concern of a portfolio manager acting in a strategic role is with the comparative business case and ROI of projects. He or she provides individual project managers with the tools, training, resources and support they require and then lets them do their job, stepping in only to help or provide course correction when needed. A disciplined portfolio manager acting in a strategic role avoids becoming swayed by pet projects, special interests, politics or personal agendas by maintaining a strategic view of the entire portfolio while continually challenging the ability of individual projects to add value to the bottom line.

Case Study: Constellation Energy

Constellation Energy, headquartered in Baltimore, Maryland, launched an Enterprise Program Management Office (EPMO) in January 2005. The first year was spent establishing the infrastructure of people, processes and systems; getting buy-in on the process and design of the system; and getting executive support from across the company for standardizing and simplifying the way projects are managed and prioritized. “I firmly believe that project management needs to occur at a strategic level,” says Darnell Singleton, Constellation’s Corporate Director for the EPMO. “Since strategy is achieved via project execution, its success depends on the selection and support of the right projects and their execution according to project management principles.”

One of Constellation’s first steps was to create and train employees in a continuous improvement methodology. Singleton explains, “Before investing in strategic project management tools, we wanted people to understand what problem-solving, change management and project management were all about. Once they had become familiar with the methodology, they were able to provide valuable feedback on the tools it required.”

Constellation’s continuous improvement and problem-solving methodology, SIRIUS, is based on Six Sigma methodology and incorporates best practices of other change management, project management and problem-solving techniques. “We incorporated the best that each has to offer under a proprietary umbrella we call SIRIUS (Scope, Investigate, Reason, Innovate, Undertake and Sustain),” says Singleton. “The idea is that the product of a project actually sticks and is sustained so that we can realize its expected benefits. Over a period of two years, 1100 employees across the company have been trained in the SIRIUS continuous improvement methodology.”

The EPMO oversees the enterprise project management system that is utilized across the company. “We launched the system in February 2006,” says Singleton. “We involved key representatives from every business unit to help us with its design and configuration. Our ultimate goal is to replace the multitude of disparate tools with just one that can facilitate the entire project lifecycle from idea generation to project prioritization and selection, project close-out, lessons learned and ensuring that benefits are realized and tracked. The system was enthusiastically received across the business and already includes over 200 active projects.”

Constellation’s EPMO also oversees an internal change management practice that helps the organization manage the people risk of the company’s key transformational projects.. “My team provides change management consultants to support projects,” says Singleton. “Not only are they less costly than external change managers, they also understand our business better.” Singleton’s advice for organizations new to enterprise project management is to practice patience. “Patience is probably the most difficult thing to cultivate in our fast-paced, highly competitive environment,” he says, “but you cannot shortcut the difficult task of establishing a project management office, selling the methodology to employees and giving them time to adapt. It’s just not realistic to expect newly trained people to hit the ground running as effective project managers. It takes practice for the culture to take hold.”

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