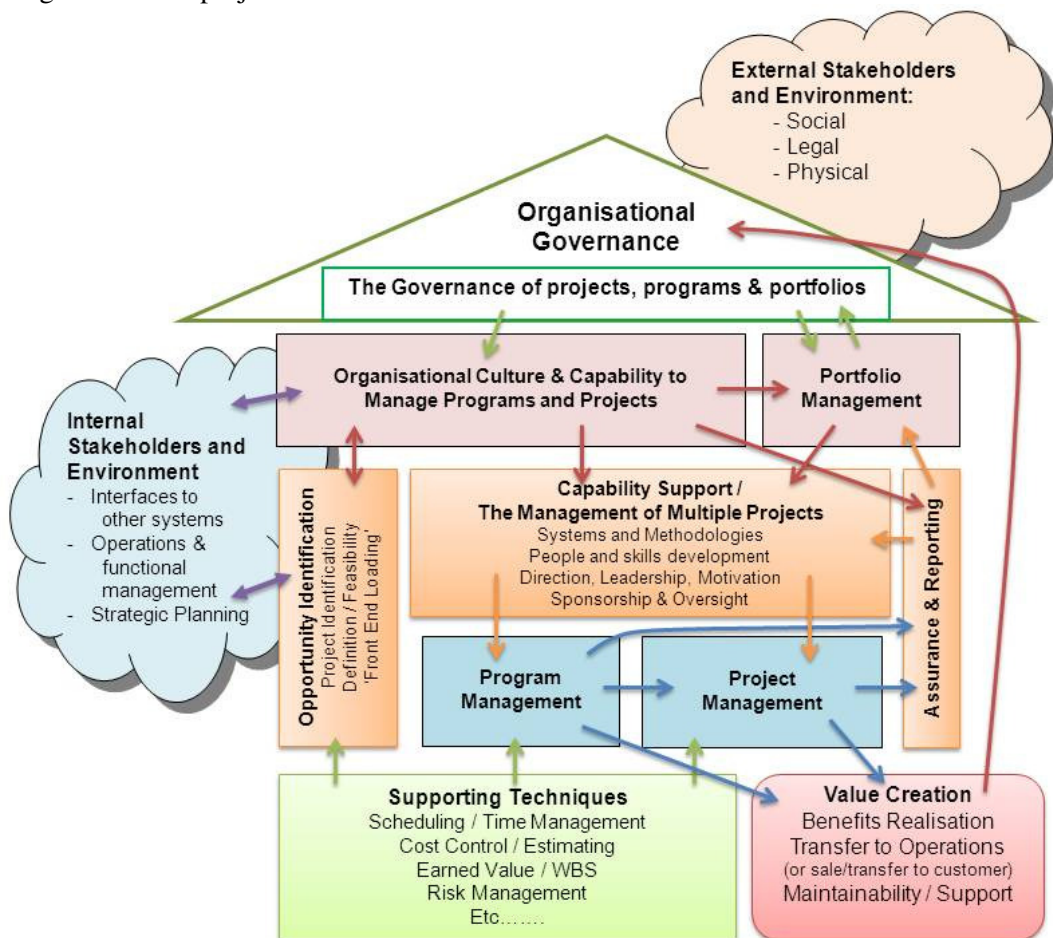


The Strategic Management of Projects

The concept of *Managing projects* describes the organisation's ability to select, nurture and deliver projects and programs effectively. The *strategic capability to manage projects*¹ expands this general concept to include the direction of the organisation's overall Project Delivery Capability (PDC) towards the achievement of its strategic objectives. The *strategic management of projects* includes all of the aspects of project delivery discussed in our white paper PDC Taxonomy² (outlined below) focused on realising strategic value for the organisation.

In many organisations, implementing an effective and rigorous PDC structure will require a major organisational change effort and will challenge existing cultures, particularly the tendency of executives to focus on *project failure* rather than *organisational failure* when their organisation fails to adequately support the management of its projects.



The PDC Architecture outlined in WP1074 – *PDC Taxonomy*²

¹ **Strategic project management** has many different terms for the same general set of management capabilities required to support the efficient delivery of the 'right' projects and programs. Some options include:

- **The Management of Projects:** Prof. Peter Morris' concept
- **Enterprise Project Management:** tends to be used for the supporting software tools
- **Enterprise Project Governance:** (used in a book by Paul Dinsmore & Luiz Rocha) focused on *How to Manage Projects Successfully Across the Organization*. (Governance and management are different processes)
- **Value Delivery Capability:** (VDC) used by Jed Simms.
- **Project Delivery Capability:** (PDC) our preferred / legacy term

² Download our **PDC Taxonomy** White Paper:

http://www.mosaicprojects.com.au/WhitePapers/WP1074_PPP_Taxonomy.pdf

Developing an effective strategic capability to manage an organisation's projects and programs effectively is critical to the creation and preservation of stakeholder value. As a starting point, the only reason of undertaking a project or program is to realise some form of value; benefit realisation. To ensure the 'realised benefits' create strategic value, three elements need to be brought together:

1. There needs to be a new product or process created (an artefact);
2. People within the organisation need to make effective use of the artefact to deliver benefits;
3. The benefits need to be strategically relevant, aligned and accepted in the 'wider market'.

The role of Strategic management is to determine what products and services are likely to be accepted or needed by the market in the future and how the organisation will adapt to best serve these needs. Portfolio management³ focuses on determining which investments in projects and programs best meet these strategic objectives. These decisions will depend on the objectives of the organisation and its inherent capability and capacity to undertake the required work.

From this foundation, the generally accepted role of project management is to create a unique product, service or result (an output) and the role of program management⁴ is to manage a group of related projects to achieve an outcome more efficiently than if the projects had been managed in isolation. However, neither of these processes can achieve real value in themselves! The realisation of sustained value is achieved by the organisation using the new 'artefact' effectively over many months or years to fulfil its strategic objectives. The extent of this challenge is outlined in our White Paper Organisational Change Management⁵.

The four layers of PDC

The four layers of PDC defined above are:

- **Governance (Dark green)** – the organisations directors / leaders have the ultimate and exclusive responsibility to set the right strategy, define an acceptable risk appetite, set the organisations objectives and frame an open and effective culture. Then to ask the right questions and require the right answers from their executive.
- **Executive management (Purple)** are responsible for creating the capability and culture of accountability needed to deliver projects successfully and realise the intended benefits. A key element in this is developing a rigorous portfolio management capability to select the best projects to fulfil the organisation's strategy, based on consideration of each project's feasibility and viability, within the organisational constraints of capability and capacity.
- **Organisational support processes (Orange)** including opportunity identification and assessment, plus developing and enhancing the organisation's project delivery capability including: organisational enablers, support systems, oversight systems⁶, change management systems and value realisation.
- **Traditional project & program management (blue)** are the processes defined in a range of standards needed to deliver the defined outputs and outcomes. PDC focuses on developing a framework that provides effective support, leadership and oversight to these functions.

³ For more on **Portfolio Management** see: http://www.mosaicprojects.com.au/WhitePapers/WP1017_Portfolios.pdf

⁴ For more on **Program Management** see: http://www.mosaicprojects.com.au/WhitePapers/WP1076_Program_Management.pdf

⁵ Download our **Organisational Change Management** White Paper: http://www.mosaicprojects.com.au/WhitePapers/WP1078_Change_Management.pdf

⁶ For more on **project surveillance** see: http://www.mosaicprojects.com.au/WhitePapers/WP1080_Project_Reviews.pdf



Program management will fulfil some of the organisational support functions where several projects are being managed in an integrated way to maximise benefits. However, where programs are used by the organisation, the organisation's overarching support processes need to be capable of effectively supporting and overseeing the work of the programs as well as other independent projects.

Creating and enhancing an effective PDC requires all three management levels to understand their respective roles in supporting the organisation's projects and programs so that the projects and programs can contribute the maximum value to the organisation⁷.

Developing strategic project management maturity

Developing an effective PDC will enable organisations to improve the way they manage the 'doing of their projects' and as a consequence increase the success rate resulting in increased value for their stakeholders. The ROI from improving an organisation's PDC should be significant!

The value proposition for developing an effective PDC (itself a business change program) is compelling. World-wide research undertaken by Jed Simms at the Boston Consulting Group in the 1990s defined five levels of PDC, and found that the return on investment (ROI) from projects increased substantially at each level⁸. These findings have been developed into a project delivery capability model:

- **Level 1 capability** is represented by executive complacency, project teams doing their own thing, no benefits management, and on average projects typically show a small negative ROI but results are wildly variable with some successes (which are always highlighted).
- **Level 2 capability** sees the imposition of process focused on measuring activity rather than outcomes. The business imposes forms, requirements and check lists; 'methodology police' enforce a one-size-fits-all policy. The process of developing 'approvable' businesses cases and standardised project reporting creates more uniform outcomes but there's little understanding of risk -v- reward and virtually no follow through to implementation and benefits realisation. As a consequence there is typically a neutral ROI – despite the glowing promises in the business case, the value actually created eventually covers the costs.
- **Level 3 capability** sees the organisation gaining sufficient experience and confidence to allow measured flexibility into its processes for managing projects. The basic disciplines are retained, but the way they are implemented is adjusted to suit the needs of the project. The executive view moves from imposing 'controls' towards an outcome focus using elements of portfolio management. However, project success still tends to be measured in terms of time, cost and scope at the end of the project rather than the benefits gained by the organisation; an output focus rather than an outcome focus. Organisations at this level generate a reasonable ROI measured at the project level but largely miss the potential for substantially enhanced business outcomes. The majority of 'maturity models' such as OPM3 and P3M3 primarily focus on achieving this level of capability.
- **Level 4 capability**⁹ introduces a paradigm shift in executive thinking. Rather than focusing on project outputs, the work of the project is seen as a key enabler needed to achieve valuable business

⁷ The design of an effective PDC system is the role of **governance**. To understand the difference between governance systems and management systems s http://www.mosaicprojects.com.au/WhitePapers/WP1084_Governance_Systems.pdf

⁸ Source, **Project Delivery Capability – the next competitive battleground**, Jed Simms, TOP – Totally Optimized Projects Pty Ltd: <http://www.totallyoptimizedprojects.com>

⁹ Project Business Management is a concept that looks towards an enterprise-Wide project management function that recognises portfolio, program, and project management as business functions and a core enterprise-wide competency within the enterprise (organisation), potentially supported by a Project Business Management Office (PBMO). This recognition is the key change between Levels 3 and 4.

The PBMO as an executive level management business function organization and addresses setting policy and establishing charters. The PMBO develops an organizational model for the business management of portfolios, programs, and projects and oversees the establishment of portfolio, program, and project management offices (PMOs).

outcomes – the project is merely a means to achieving a more important ‘end state’. This requires an integrated process flow from the identification of a need or opportunity within the business through to implementing the changes required to deliver of the expected business outcomes to meet the need or exploit the opportunity.

Ownership of this value chain is vested in the business, the role of projects and project management is to support this overall effort by delivering the outputs best suited to achieving the business objective. The model defined in PDC (Project Delivery Capability) represents the framework needed to support this level. Simms’ research suggests there is an increase in ROI to 2 to 3 times that achieved at Level 3 once the focus of organisation’s executives shift to achieving business related outcomes and the value achieved. This paradigm shift is supported by assigning executive responsibility for, and then measuring, the benefits actually realised by the organisation.

- **Level 5 capability** expands on Level 4 with the whole PDC system focused on efficiently supporting the strategic objectives of the business. Effective strategic alignment linked to pragmatic risk management, supported by simple but effective processes, is the key to generating another significant increase in ROI!

Based on observation rather than measurement, it seems the majority of organisations in both the public and private sectors are currently operating at Level 2, typically with the PMO fulfilling the role of ‘methodology policeman’, a few more mature organisations, mainly private sector, are achieving Level 3 maturity whilst many public and private sector organisations remain at Level 1.

Very few have taken the step to Level 4 where the executive hold their business managers accountable for achieving the outcomes defined in the business case and invest in the PDC capability needed to properly support their business’ program and project managers.

Summary

Change is needed in the approaches currently used in many organisations to define and deliver projects and programs. The current model for managing projects and programs is typically generating failure rates in excess of 50% and to keep doing the same thing, expecting different outcomes is, to quote Einstein, ‘*the definition of insanity*’! Thinking in terms of developing strategic capabilities to effectively manage projects reframes the project delivery/success paradigm.

The only reason for undertaking a project or program is to create value through the realisation of benefits. Some projects generate significant intangible benefits such as reduced risk, enhanced prestige or in the case of regulatory requirements, the simple ability to keep trading; others are focused on generating a positive financial return, most generate a combination of financial and intangible returns. PDC provides the framework to define the requirements, then achieve the objectives, to realise the intended value for the organisation.

Within the PDC maturity framework, doing projects ‘right’ is a Level 2 phenomena, doing the ‘right projects, right’ is Level 3; the optimum is Levels 4 and 5 where the right projects are done for the right strategic reasons and are effectively supported by the organisation’s executive to deliver the maximum return (tangible and intangible) on the organisation’s investment.

This White Paper is part of Mosaic’s **Project Knowledge Index**
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http://www.mosaicprojects.com.au/PM-Knowledge_Index.html

