

Organization Strategy and Project Selection

Chapter 2: Doing the *Right* Projects

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and Project Selection

Chapter 2

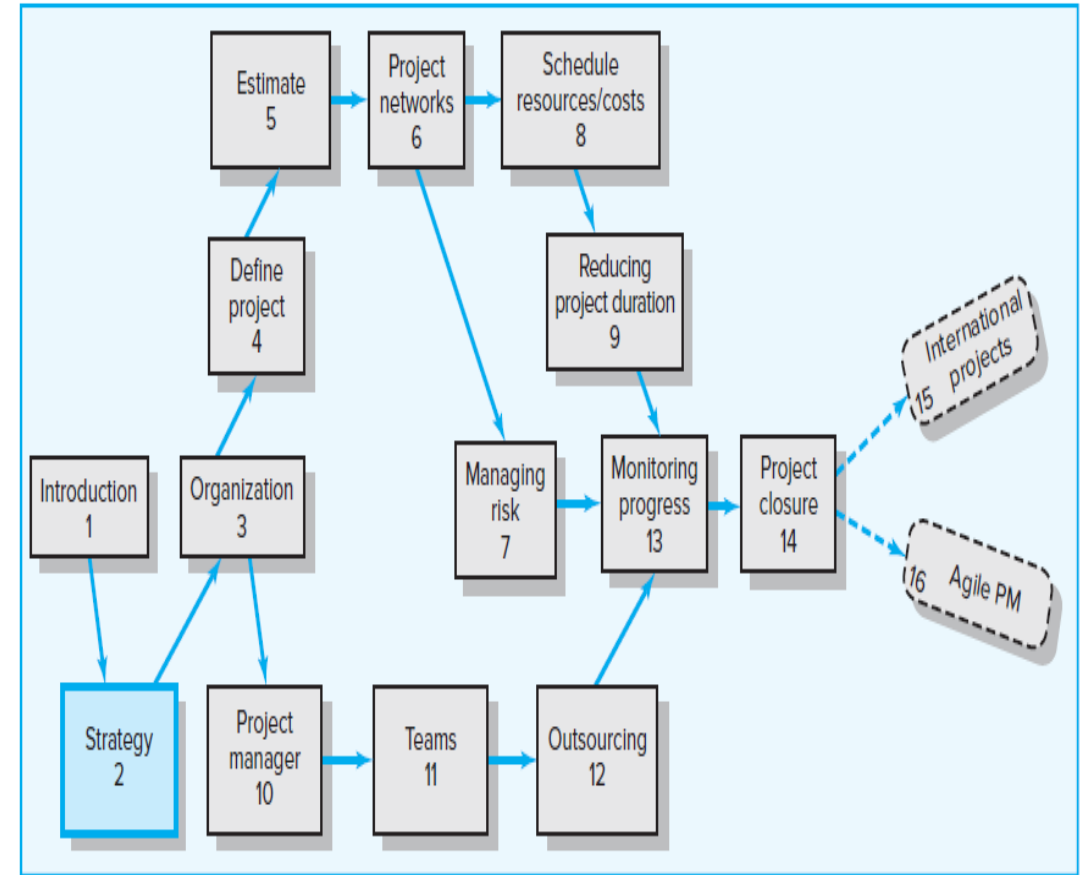


The "Wrong Project" Problem

"There is nothing so useless as doing efficiently that which should not be done at all."

— Peter Drucker

Chapter 1 was about "Doing Projects Right." This chapter is about "Doing the *Right* Projects."



Chapter 2: Learning Objectives



Understand the link between organizational strategy and projects.



Describe the strategic management process.



Use financial models (Payback, NPV) to evaluate projects.



Use non-financial models (Checklists, Scoring) to evaluate projects.



Understand the concept of a Project Portfolio and the role of a PMO.

The "Why": Projects & Strategy

What is Strategy?



Mission

Who we are. Our purpose. (e.g.,
"To organize the world's
information...")



Vision

Where we are going. The future.
(e.g., "...and make it universally
accessible.")



Objectives

How we get there. The specific
goals. (e.g., "Launch a new data
center in Europe by Q4.")

****Strategy**** is the plan to achieve these
objectives.

EXHIBIT 2.1

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	State when the objective can be achieved, that is, duration

Figure 2.1: The Strategic Management Process



FIGURE 2.1 Strategic Management Process

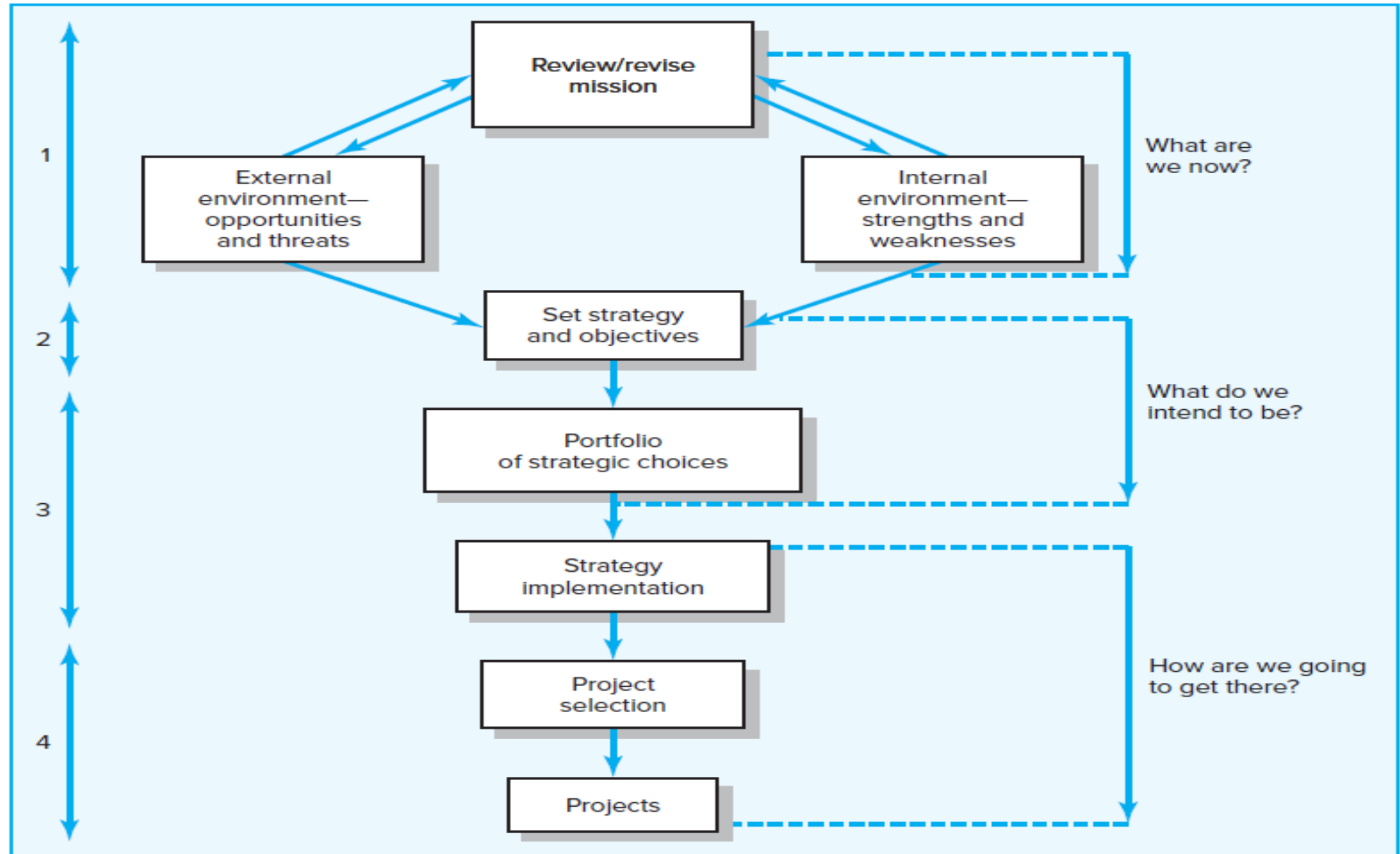


Figure 2.2: The Link Between Strategy and Projects



****Projects are the "engine" that makes strategy a reality.****

The Problem of Misalignment



In many organizations, projects are chosen without a clear link to strategy. This leads to:

- **The "Silo" Problem:** Each department runs its own projects, conflicting with others.
- **Wasted Resources:** Money and people are spent on low-value "pet projects."
- **Confusion:** Teams don't understand *why* they are working on a project.
- **Strategic Failure:** The organization fails to meet its goals, even if all projects are "successful."

The "How": Project Selection

Project Portfolio Management (PPM)



What is a Portfolio?

A collection of projects and programs managed as a group to achieve strategic objectives.

Project Selection is the process of evaluating and choosing which projects will go into the portfolio.

FIGURE 2.2
Portfolio of Projects
by Type

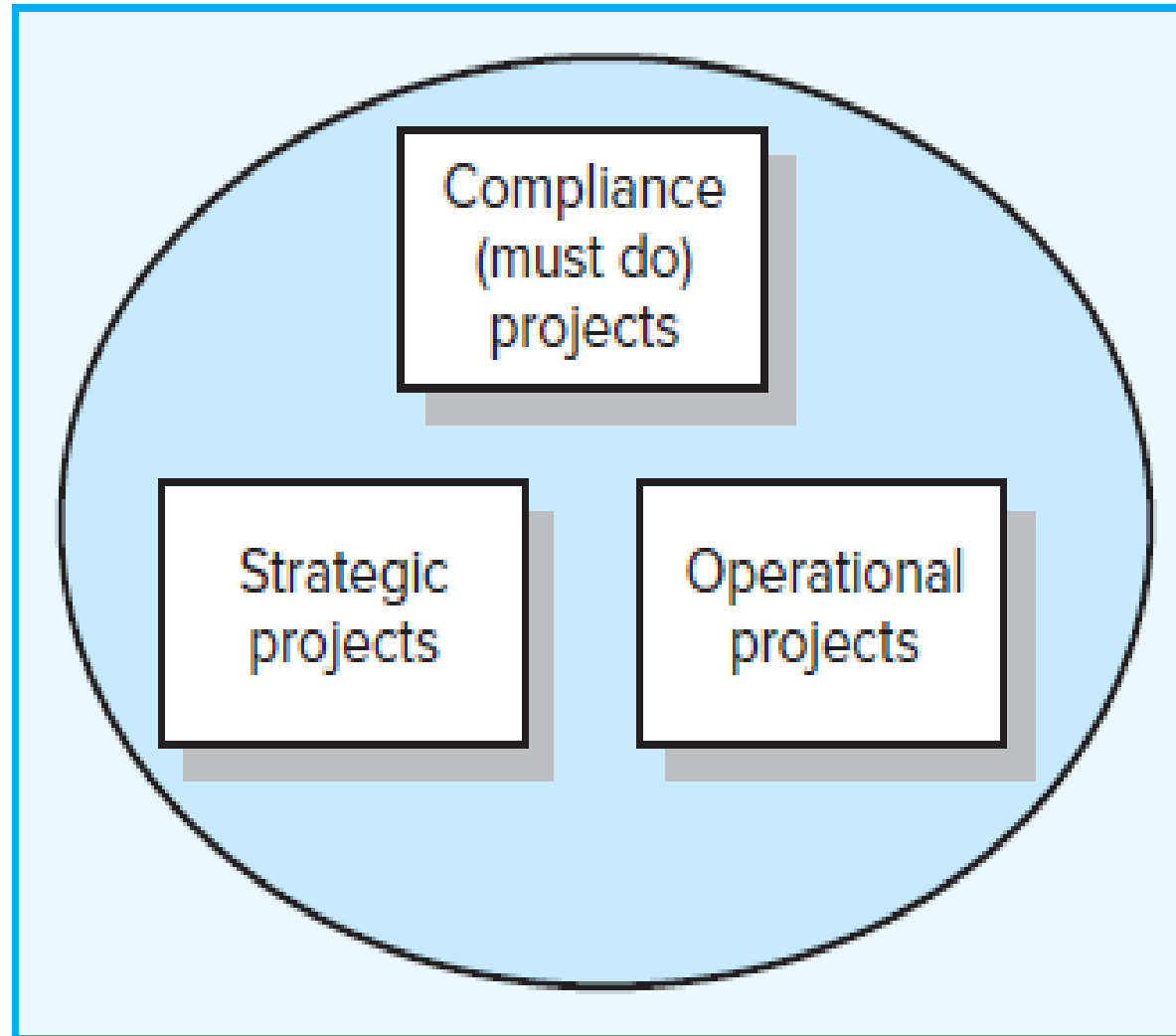


EXHIBIT 2.2

Benefits of Project Portfolio Management

- Builds discipline into project selection process.
- Links project selection to strategic metrics.
- Prioritizes project proposals across a common set of criteria, rather than on politics or emotion.
- Allocates resources to projects that align with strategic direction.
- Balances risk across all projects.
- Justifies killing projects that do not support organization strategy.
- Improves communication and supports agreement on project goals.

Project Selection Models

Financial Models

These models are about the **math**. They try to answer the question: ****"What is the financial return on this investment?"***

- Payback Period
- Net Present Value (NPV)
- Internal Rate of Return (IRR)

Non-Financial Models

These models are about the **strategy**. They try to answer the question: ****"Does this project help us achieve our goals?"***

- Checklist Model
- Weighted Scoring Model
- Strategic Alignment

Financial Model 1: Payback Period



What is Payback?

The time it takes to "pay back" the initial project investment.

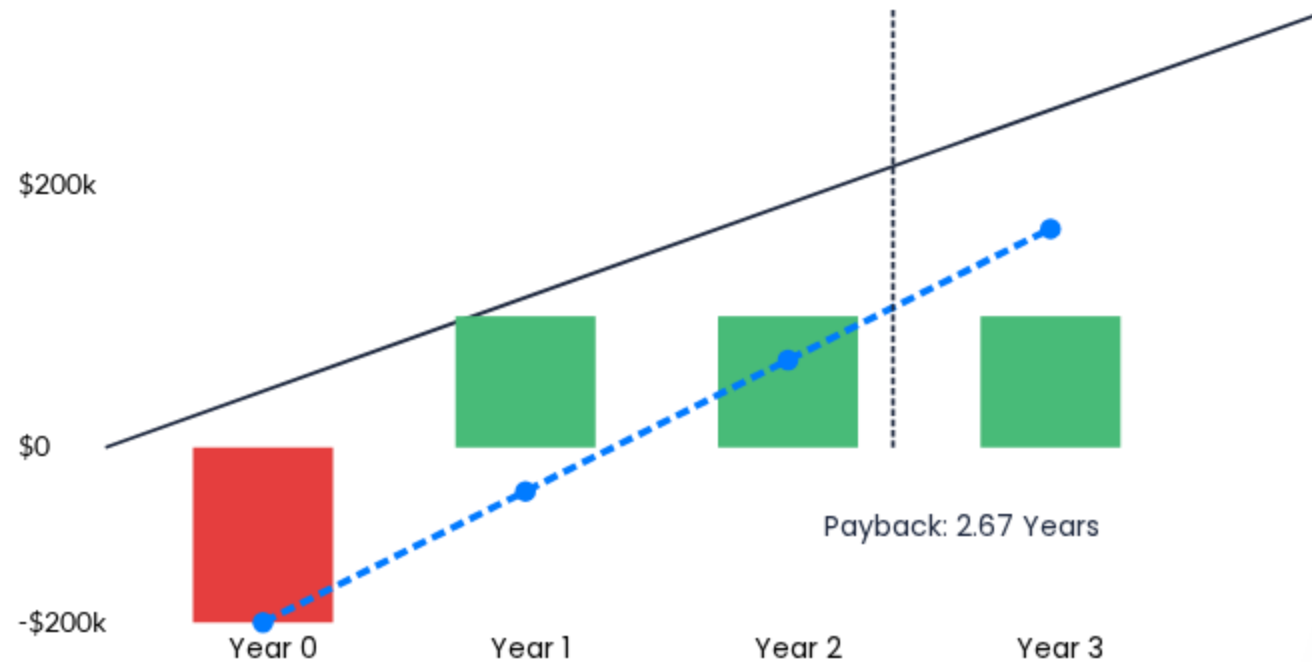
- **Initial Cost:** \$300,000
- **Annual Savings:** \$100,000 per year
- **Payback Period:** 3 Years

Pros: Easy to calculate and understand.

Cons: ****Ignores the Time Value of Money**** (a dollar today is worth more than a dollar tomorrow). Ignores all profits ***after*** the payback period.

Chart: Payback Period Example

Initial Investment: \$200k | Annual Inflow:
\$75k



Example Comparing Two Projects Using Payback Method

$$\text{Payback period (yrs)} = \text{Estimated Project Cost} / \text{Annual Savings}$$
$$\text{Rate of return (yrs)} = \text{Annual Saving} / \text{Estimated Project Cost (investment)} * 100$$

Example Comparing Two Projects Using Net Present Value Method

k = Required rate of return

	A	B	C	D	E	F	G	H	I	J	K	L	M
1													
2				Exhibit 2.3B									
3													
4				Example Comparing Two Projects Using NPV									
5	Project A		Year 0	Year 1	Year 2	Year 3	Year 4	Year 5	Total		Formulas		
6	Required	15%											
7	Outflows		-\$700,000						-\$700,000				
8	Inflows			\$225,000	\$225,000	\$225,000	\$225,000	\$225,000	\$1,125,000				
9	Net inflows			\$225,000	\$225,000	\$225,000	\$225,000	\$225,000	\$425,000	Project A: =C7+NPV(B6,D9:H9)			
10	NPV	\$54,235											
11													
12													
13	Project B												
14	Required	15%											
15	Outflows		-\$400,000						-\$400,000				
16	Inflows			\$110,000	\$110,000	\$110,000	\$110,000	\$110,000	\$550,000				
17	Net inflows			\$110,000	\$110,000	\$110,000	\$110,000	\$110,000	\$150,000	Project B: =C15+NPV(B14,D17:H17)			
18	NPV	-\$31,263											
19													
20													
21													
22	NPV comparison: Accept Project A---NPV is positive.												
23	Reject Project B---NPV is negative.												

Financial Model 2: Net Present Value (NPV)

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

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

This is the "Gold Standard"

NPV accounts for the ****Time Value of Money**** by

"discounting" future cash flows back to what they are worth

today.

It answers the question: "How much value, in today's dollars,

does this project add to the company?"

****If NPV > 0, accept the project.****

****If NPV < 0, reject the project.****

NPV Example (Table)

Initial Cost: \$1,000 | Discount Rate: 10%

Year	Cash Flow	Discount Factor (10%) = $1 / (1 + r)^n$	Discounted Cash Flow (PV) = CF * DF
0	-\$1,000	(PV year 0)	-\$1,000.00
1	+\$400	0.909	+\$363.60
2	+\$500	0.826	+\$413.00
3	+\$500	0.751	+\$375.50
TOTAL (Net Present Value)			+\$152.10

Conclusion: Accept the project. It adds \$152.10 in value.
Note: If DF % Should Use = $\text{Cash Flow} / (1 + r)^n$

But... Money Isn't Everything



Non-Financial & Strategic Models

What about projects that are required by law, or projects that are critical to R&D but won't pay off for 10 years?

This is where strategic models are needed to make the final decision.

Non-Financial Model 1: The Checklist

EXHIBIT 2.4

Sample Selection Questions Used in Practice

Topic	Question
Strategy/alignment	What specific organization strategy does this project align with?
Driver	What business problem does the project solve?
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, value, ROI	What is the value of the project to this organization?
Benefits, value, ROI	When will the project show results?
Objectives	What are the project objectives?
Organization culture	Is our organization culture right for this type of project?
Resources	Will internal resources be available for this project?
Approach	Will we build or buy?
Schedule	How long will this project take?
Schedule	Is the time line realistic?
Training/resources	Will staff training be required?
Finance/portfolio	What is the estimated cost of the project?
Portfolio	Is this a new initiative or part of an existing initiative?
Portfolio	How does this project interact with current projects?
Technology	Is the technology available or new?

The simplest model. A list of questions to ask about each project.

- ☒ Does it align with Strategy Goal 1?
- ☒ Is the technology available?
- ☒ Do we have the people?
- ☐ Is the risk level acceptable?
- ☒ Does it have a strong sponsor?

Pros: Simple, fast, aligns to strategy.

Cons: Highly subjective, all items are "equal."

Non-Financial Model 2: Weighted Scoring Model



The "Best Practice" Model

This model combines the best of all methods. It is the most robust and popular selection tool.

How it works:

- 1 Identify key strategic criteria (e.g., "Strengthens Brand," "High ROI").
 - Assign a ****Weight**** to each criterion (e.g., Brand = 20%, 2. ROI = 40%).
- 3 ****Score**** each project against each criterion (e.g., 1-5).
- 4 ****Multiply Weight x Score**** to get a total weighted score.

Result: A single, objective number that shows which project best meets the company's goals.

EXHIBIT 2.4

Sample Selection Questions Used in Practice

Topic	Question
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Figure 2.3: Weighted Scoring Model Example

Strategic Criterion	Weight	Project A (Score 1-5)	Project A (Weighted)	Project B (Score 1-5)	Project B (Weighted)
Aligns with Strategy	30%	5	1.50	3	0.90
High Financial Return (NPV)	25%	2	0.50	5	1.25
Low Risk	20%	3	0.60	3	0.60
Improves Customer Satisfaction	15%	4	0.60	1	0.15
Uses Existing Resources	10%	1	0.10	5	0.50
TOTAL	100%		3.30		3.40

****Conclusion: Select Project B.**** (Even though Project A had better strategic alignment, Project B is the better *all-around* choice).

The "System": Portfolio Management

PPM vs. PM: A Key Distinction

Project Portfolio Management (PPM)

This is a high-level, strategic function.

Main Question: "Are we doing the *right* projects?"

effectiveness

- Focuses on project selection & prioritization.
- Manages the entire "portfolio" of projects.
- Reports to executive leadership.

Project Management (PM)

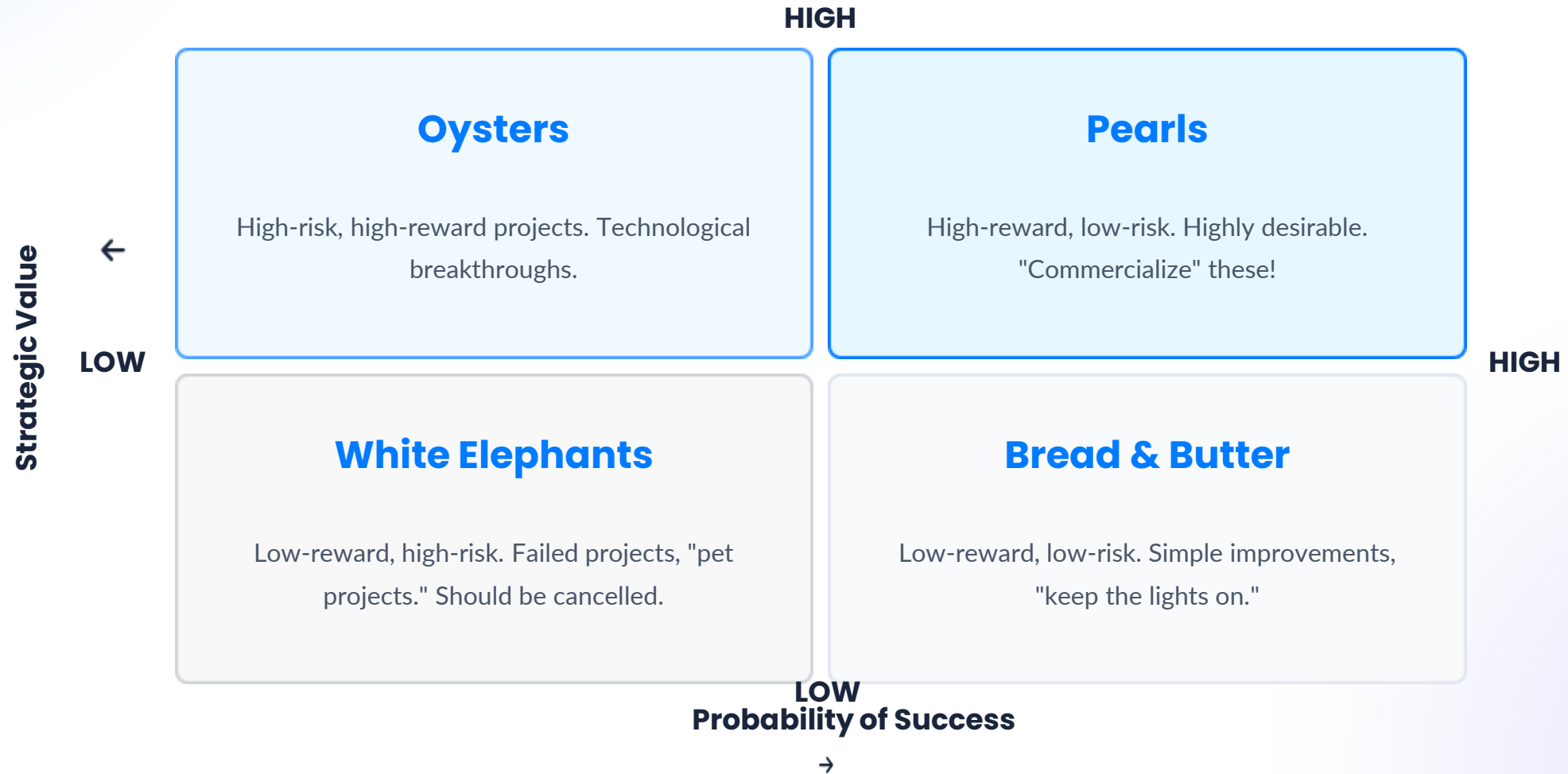
This is a tactical, in-the-trenches function.

Main Question: "Are we doing the projects *right*?"

efficiency

- Focuses on schedule, budget, and scope.
- Manages one project at a time.
- Reports to the project sponsor.

Figure: Project Portfolio Matrix



Managing the Portfolio

A good portfolio is

****balanced****.



Pearls (Commit): These are your winners. Fund them and get them to market.



Bread & Butter (Maintain): These are necessary but don't innovate. Fund them, but keep them efficient.



Oysters (Gamble): These are your R&D projects. You must fund a **few** of them, knowing most will fail, in hopes of finding one massive Pearl.



White Elephants (Cancel): The hardest part of PPM. These projects drain resources and must be stopped.

The Role of the PMO



Project Management Office (PMO)

A centralized organizational unit created to improve the management of projects.

A PMO can be responsible for:

- Being the "keeper" of all templates, standards, and best practices.
- Providing training and support to Project Managers.
- Managing the Project Portfolio and helping leadership select projects.
- Providing project managers to other departments.



Types of PMOs



Supportive

Provides templates, training, and best practices. Acts as a consultant. (Low control)



Controlling

Requires compliance. Audits projects to ensure they follow templates and standards. (Medium control)



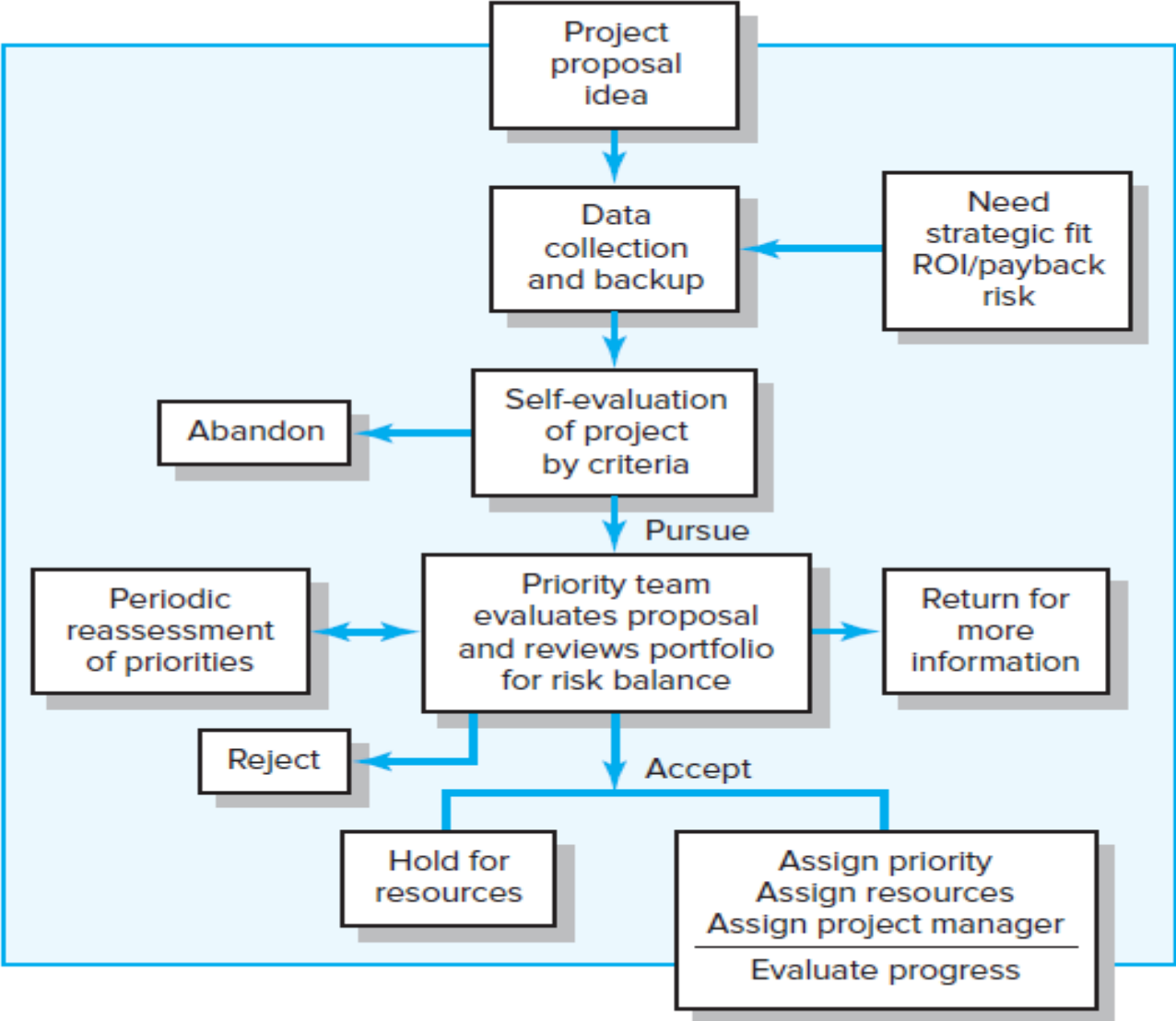
Directive

Takes control. Provides the Project Managers and *directly manages* the projects. (High control)

Chapter 2: Summary

- ✓ Projects must be ****aligned with strategy**** to provide value.
- ✓ The ****Strategic Management Process**** is how companies decide what to do and how to do it.
- ✓ ****Financial Models**** (like NPV) tell us if a project is profitable.
- ✓ ****Scoring Models**** tell us if a project is **strategic**. The best practice is to use both.
- ✓ A ****Project Portfolio**** must be balanced (Pearls, Oysters, etc.).
- ✓ A ****PMO**** helps the organization manage its projects and portfolio.

FIGURE 2.5
Project Screening
Process



Discussion Question

If NPV is the "gold standard" and tells you the *exact* dollar value a project will add, why would a company ever use a "subjective" weighted scoring model? and why?

What kind of valuable project might have a negative NPV?

Questions?