

Chapter 110

Corporate Strategy from the Bottom: Project Portfolio Management Can Help Clarifying Your Strategy

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ABSTRACT

This chapter demonstrates that the connection between strategy and actions is key for a company to gain a conscious strategic advantage from what done in day-to-day activities. This connection is not always clear and often the officially stated strategy is far from the strategic direction showed from an analysis of the portfolio of initiatives undertaken by a company. Project Portfolio Management (PPM) methodology can help in assessing and improve this connection, as to start a PPM this connection must be clarified. This chapter aims to verify 2 hypotheses. The first is that it is possible to implement a Project Portfolio Management system in a company without a strategic planning process in place. The second is that the implementation of a Project Portfolio Management system helps companies to grow their strategic thinking and can be a first step in strategic planning.

INTRODUCTION

Big and structured companies have a well-defined process to identify their corporate strategy and then break it down into objectives for business units, operations etc. These companies have a strategic planning process in place.

Frequently, this is not what happens in smaller companies where this process is often not structured and sometimes not present at all. In these situations, the company strategic direction is more a “sensation” that top-down flows through the structure, sometimes is mentioned during conventions, other times written in brochures, or discussed among employees during coffee break.

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In this kind of scenario most of the people and most of the projects are managed on a day-to-day strategy approach, where mid-managers base their decisions on two approaches: keep on doing what done in the last 6-12 months and try to understand the company strategy to address day to day activities.

If you have the opportunity to look at the portfolios of these companies this comes out very clearly as they have:

- Many former projects still in place and with resources still assigned.
- Some projects still existing but stopped somewhere.
- Ready-to-start new projects based of the new exciting ideas and strategies coming from the top.
- New ideas (good & bad) not linked to any strategy.

This kind of project portfolios don't fully reflect the actual company strategy as they are a mix of many strategies (declared, hidden, deduced, unreal) coming from many "business as usual" years.

This kind of project portfolios are affected from a strong multitasking syndrome. Referring to the Theory of Constraints (TOC), (Goldratt, 1997) what happen in situations like these is that most of projects are late, most of strategic objectives are missed or not aimed at all, resources are multi-utilized and overbooked and the link between the actual strategy in Top Management's mind and what happen in their company is very weak.

Project Portfolio Management (PPM) methodology wants to connect Strategy with Projects. This methodology use the Corporate Strategy (but works well with SBU strategy or department objectives resulting from Corporate Strategy) to create a set of criteria and a mathematical model to evaluate company projects on the base of their alignment with the strategy and the expected benefits produced. This analysis done after the definition of the strategy but before the implementation of the projects (that this strategy should put in place) helps the company to focus on the right projects, investing time and money on what is aligned with objectives, terminating project & activities no longer useful.

There are three main objectives that management try to achieve by implementing a robust portfolio:

1. **Value Maximization/Utility:** The allocation of resources depends on the value of a project in the broader scope of portfolio. The aim is to select the optimal set of projects so to maximize the value of the entire portfolio, taking into account profitability, return-on-investment but also probably to success and risk and any other objective set by the organization at a strategic level. Project evaluation tools like financial or scoring models are used at this stage.
2. **Balance:** To create the right balance between projects turns out to be a crucial element to implement project portfolio properly. A balanced portfolio increases the likelihood of management success as it aimed at fairly distributing project on the basis of project type, long vs short-term, high vs lower-risk. The main issue here is to find the most effective mix of project according to a number of parameters assessed, in order to avoid multitasking, overlapping and poor performance.
3. **Strategic Direction/Fit:** The link between projects and strategy is reflected in the creation of a portfolio that truly helps in the implementation of the organization's business strategy. The focal point here is to what extent does the execution of the portfolio contribute in reaching organizational strategic goals. The first concern here is to ensure that the effective breakdown of spending, both in terms of financial and human capital, mirrors the organization strategic priorities. The fundamental concept of strategic fit will be further analyzed below.

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