14th Conference, Seminars, & Exhibition
January 28-30, 2013, Bahrain

Technical Paper Template
(Rev. 2012-05-16)

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Using more effective project management to improve strategic performance

25th October 2012

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Abstract

This paper suggests some practical actions that organisations can take to align projects with strategy, and to help drive successful execution of strategy.

These actions are based on our experience and observations in helping regional organisations implement strategic performance management as well as Project Portfolio and Program management, and reviewed in the light of published research or experience in international markets addressing alignment, strategy execution and performance management.

The paper addresses issues spanning:

- Alignment
- Consensus
- Methodology
- Measurement
- Resource Management.

Introduction

A considerable amount of research effort has been devoted to the challenges of Strategic Execution during the last decade and more. This takes the form of papers, books and surveys from business schools and academic institutes focusing, among other things, on organizational performance, change management, strategic planning and leadership, as well as from the project management community in terms of research papers and observations covering such topics as project alignment, strategic projects, program management, portfolio management and return on investment.

Some examples are provided in the Bibliography at the end of this paper, but these represent only a small selection of the published work.

While there are many hypotheses about the causes of poor strategic execution, and several approaches are recommended by various practitioners or consulting organisations in this field, it remains clear that significant challenges still exist for organisations in successfully executing on strategy [1],[2].

This paper attempts to clarify some of these challenges and then examines the value that project management brings to successful execution of strategy.

Purpose

The purpose of this paper is to provide insight into the significant contribution that organizational project management capability makes to organizational performance, and to suggest practical steps that should improve strategic execution appreciably by strengthening project management capability.

The paper discusses some challenges to strategy execution in a broader context than project management in order to identify, clarify and position requirements, but in discussing solutions to those challenges largely restricts it's focus to the role of portfolio, program and project management.

The paper will touch on but not discuss in detail the vital roles played by the following in improving strategic performance:

- Balanced Scorecard (3rd Generation)
- Change Management & Communications
- Risk Management
- Process Improvement Management.

Background

TenStep, and 2GC Active Management, our global strategic partner, have been directly involved in the implementation of strategic performance management and portfolio and project management processes and competencies for more than 10 years, both regionally and internationally, in commercial, government and non-profit sectors. This includes current work where 2GC are assisting in the implementation of a new Government Agency responsible for performance measurement in the areas of productivity and effectiveness across the board for all Government Agencies in the Kingdom of Saudi Arabia.

This experience, coupled with an extensive review of current research and literature available, has provided some insights into common causes of strategic execution failures and common challenges faced by organisations, as well as practical and relatively simple ways in which organisations can significantly improve their strategic success rates.

Today, with increasingly rapid pace of change and new political demands and awareness brought by globalization, enhanced communication speeds and the increasing pace and scope of technical and social innovation, it is clear that the only sustainable approach to success is to invest in building a strong capability to successfully transform the organisation on an ongoing and rapid basis [3].

This paper proposes that project management (including program and portfolio management) is one of those core capabilities that can make a significant and immediate positive impact on strategic performance.

To understand this proposition better we will examine the role that project management can play across five key areas of strategic execution. These represent practical and simple steps that can benefit almost every organisation, big or small, in surprisingly effective ways.

Alignment

Gary Cokin [4] says the primary task of a balanced scorecard is to align people's work and priorities with multiple strategic objectives in order to achieve the organisation's strategy.

A Balanced Scorecard is indeed a strategic execution tool – it is designed to help manage strategic performance.

The inventor of the first Balanced Scorecard, Arthur Schneiderman, says: "The most important implementation imperative for a successful scorecard is the enrollment of the entire organisation in its achievement" [5]. To address this very issue the modern third generation Balanced Scorecard incorporates change management, consensus and alignment within the design and implementation approach [6], and we use "cascading" to ensure this consensus and alignment on strategy is driven throughout the organisation.

In this context of alignment with strategy there are at least five interfaces to consider:

1. Alignment of organizational change and transformation with strategy to ensure the right changes are made at the right time, and in synchronization with other changes and events
2. Alignment of continuous process improvements with strategy
3. Alignment of behaviour and governance with strategy
4. Alignment of strategy with risk appetite of the organisation
5. Alignment of budget, business plans and other management tools e.g. TQM with the strategy.

We will look only at the first point and the last point in this paper, in keeping with the stated objective to focus on the role of project management.

A 3rd generation Balanced Scorecard contains 4 key components, all designed and agreed entirely by the management team responsible for managing the strategic performance of their unit. These elements provide a clear consensus on the answers to the following questions:

I. Where are we going in the longer term (about 5 years) – what is our destination and when should we get there – expressed in terms of our stakeholder's expectations, external relationships needed, processes, capabilities, organisation and culture needed to sustain our drive to that destination?

II. What should we focus on in the short to medium term (1 to 2 years) to make sure we get there? What big changes must we make to start moving the organisation from where we are now towards our agreed destination, and what interim organizational benefits or progress could we expect to gain from undertaking these changes, that would show we are moving towards the agreed destination?

III. What measures will we use to track and manage our progress both in terms of completing the changes, and in terms of ensuring we achieve the predicted benefits of investing in such changes?

IV. How fast do we need to move (i.e. how challenging must our targets be) to reach our agreed destination on time, and is actual progress matching planned progress?

V. How will we report on progress and what will we do to ensure corrective action is taken when needed?

The 3rd generation Balanced Scorecard addresses these questions, but how do we implement the agreed changes in practice?

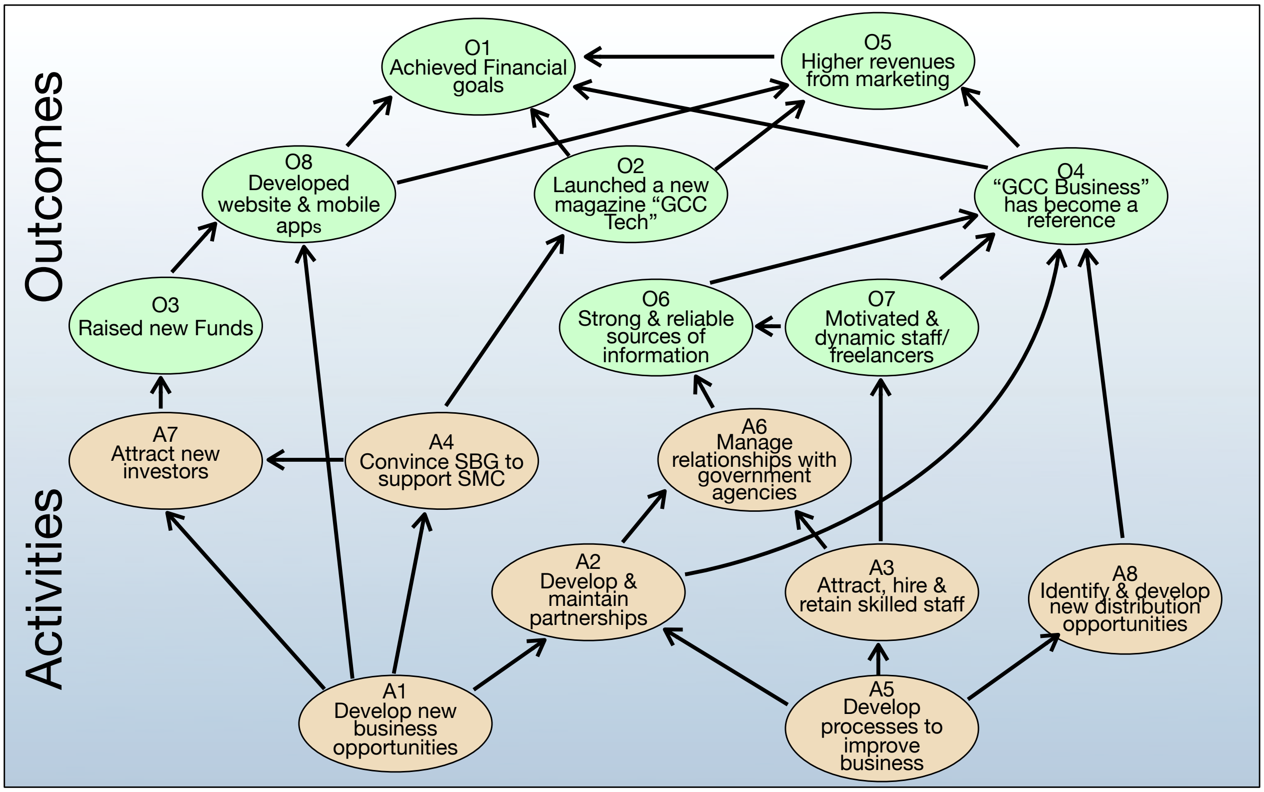

Figure 1: Sample Strategic Linkage Model (SLM). ***Courtesy of 2GC Active Management – used with permission.***

Above is a sample Strategic Linkage Model (SLM) that embodies the answers to question II above. Each bubble represents a strategic objective – those in the bottom three rows (brown) are Activity Objectives, the big changes we must focus our strategic management effort on, and the top three rows (green) are Outcome Objectives, or the benefits (interim results that would reflect progress) that we would expect to get from completing the Activities successfully. They are linked by cause and effect arrows that illustrate the management team's view on the key impacts that successful attainment of Activities and Outcomes could have individually or in combination.

In practice each of the Objectives (bubbles) is accompanied by a detailed description and one or more measures, with targets, that are used to help manage performance against that objective. These ensure that questions III and IV are answered as well, and can be simply reflected on the SLM in fact.

In itself the SLM is a very clear and concise picture of what the management team must focus on to move towards the agreed destination (I) and what benefits they expect to see as a result of completing that action. They can colour code the bubbles to reflect their status versus targets, so on one page they can see what transformations the management team should be focusing on, and what they expect to achieve by making those changes, and how well they are meeting expectations.

The important question for any management team after completing their Balanced Scorecard design is: What now?

We face this question often in our work with clients. They have a clear idea of what strategic changes they want to make simply by looking at the Activity Objectives, and these span innovation, process improvements, restructuring, resourcing and capability changes, systems and process implementations, moving into new markets, etc..

But they are not clear about how to ensure they actually can make these changes successfully. Where should they start?

To a project manager it is clear that these Activity Objectives mostly (but not all) translate simply into projects, programs or perhaps portfolios of projects that are required to execute the changes identified in Activity Objectives. And indeed, in practice, the measures that are used to manage progress on Activity Objectives are in fact project management metrics 90% to 95% of the time. The measures that are used to track an Activity Objective can be defined as the project/s that is/are being executed to make the change prescribed by that Activity Objective. Then progress against the project plan/s becomes a sound measure for the Activity Objective, and at each review of the Balanced Scorecard the organisation can simply review the project status report and check if all planned milestones have been met at that point in time or not, and answer the question "Is this Activity Objective on track?" with a simple "yes" or "no" reflecting if all project milestones have been successfully met or not.

For these measures to be 'real' the strategic project plans must have been approved and have agreed budgets and resource commitments.

Practical Step 1: When building the Balanced Scorecard ensure that any strategic projects proposed to achieve Activity Objects will become real projects with approved plans and committed funding.

Several studies, such as surveys done by PricewaterhouseCoopers [7],[8] show a strong correlation between project success rates and organizational project management capability.
However, no study is needed to understand that without an organizational capability to execute changes (i.e. run projects, transform the organisation) the desired Activity Objectives will not be achieved as planned. If changes described in Activity Objectives are not made successfully the cause and effect relationships inherently suggest that expected Outcome Objectives will not be achieved, and the organisation will fail to execute its strategy.

A very simple consideration of the reality of achieving transformational strategic objectives makes it clear that organizational project management capability, within our broad definition, is critical to success.
Experience (and some 'best practice' guidelines) shows that there are usually about 10 Activity Objectives on an organisation's Balanced Scorecard, and in large organisations where these changes can be very substantial (e.g. large scale plant or infrastructure development, complex R&D projects, massive reorganization or mergers) each Activity Objective may constitute a major program with multiple constituent projects, or even a portfolio of projects and/or programs. Even if there is only 1 project per Activity Objective, there will still be close to 10 strategic projects to manage concurrently – this means that every organisation is likely to have at least one portfolio of projects/programs whose successful execution is critical to executing strategy successfully.

How does an organisation balance resource availability with external constraints, risks and strategic priorities when they are trying to secure resources to execute all multiple projects?
How do we ensure that the excellent alignment and consensus built into the Balanced Scorecard is carried down into the execution of projects and optimized from a strategic perspective across all resource pools (including production/operations and projects)? How can we ensure that valuable information relating to the project/program risks and health are provided in a consistent, reliable and timely way to management teams to enable them to manage progress on these Activity Objectives more effectively? How will we ensure that changes are successfully adopted and used so that change is effected in the operations as planned, and that expected benefits have been realized?

By definition this is the role of Project Portfolio Management in any organisation - to ensure that resources are successfully managed across multiple projects and portfolios to optimize strategic success in terms of expected benefits from those projects [9],[10].

Portfolio Management is then part of the organizational project management capability needed to extend alignment from the strategic level (Balanced Scorecard) down into the project management processes used to effect required transformations. If projects within portfolios are justified (motivated) in terms of the degree to which they are expected to move actual Outcome Objective measures towards desired targets, these can be used to help select projects based on impact on strategic performance, and their impact after completion can be readily measured and reported as the relevant measures, inherently aligned with strategy performance, already exist in the Balanced Scorecard. Portfolio Management therefore works to seamlessly extend both selection alignment and performance measurement/feedback alignment from the strategy down into transformation execution while providing key information from project execution as a valuable input into further strategic decisions.

Practical Step 3: Implement simple project portfolio management within the same organisation used to administer and run the Balanced Scorecard process, and ensure the same management team responsible for reviewing and managing strategic performance makes all important strategic portfolio decisions. Use impact on Outcome Objectives measures to assess project value and use project metrics (e.g. milestone status, project health) to measure progress of Activity Objectives so that project management is inherently and automatically integrated with strategic performance management, and aligned on strategic measures and targets (KPIs).

The following diagrams show screen shots from a PMIS system that seamlessly integrates strategic performance management (Balanced Scorecard or simple Strategic Objectives with KPIs) with portfolio, program and project management.

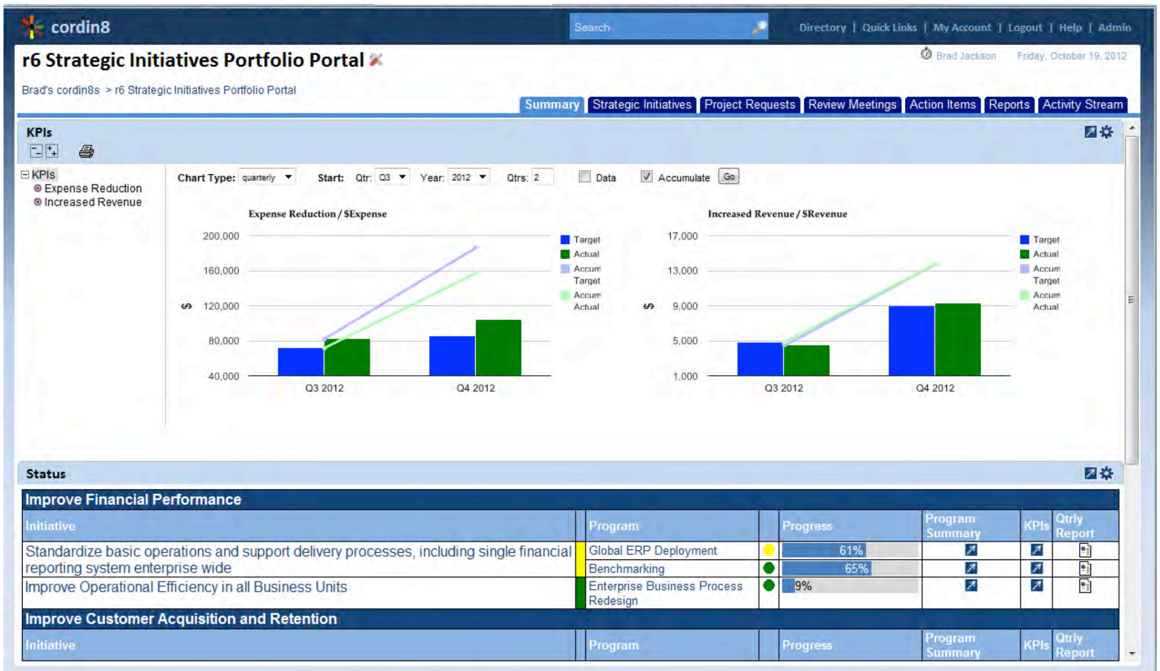

Figure 2: View of Outcome KPIs being tracked in the Strategic Portfolio
(*Used by permission of cordin8 – all rights reserved)*

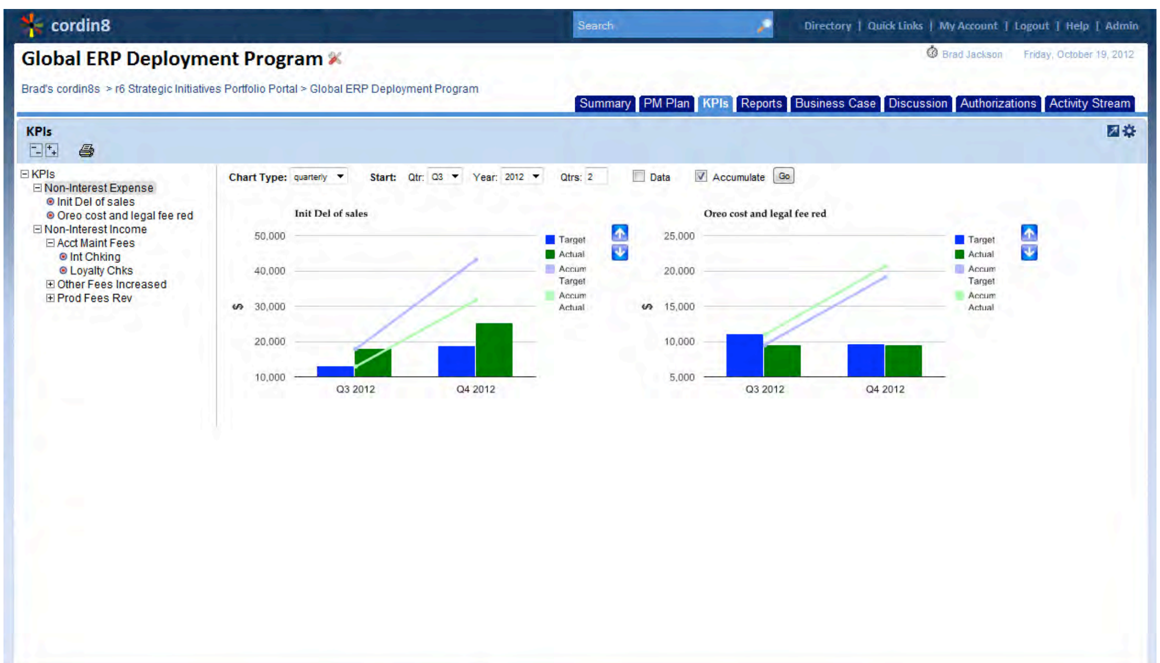

Figure 3: View of KPIs tab on a Program established as part of the Business Case for initiating the Program
(*Used by permission of cordin8 – all rights reserved)*

The Program in this case has been justified using a business case based on the extent to which the program is expected to impact the strategic KPIs shown. Because these are being measured and reported on as part of strategic performance management it is clear that a program or project justified using impact on these KPIs must be aligned with strategy, and to what extent it will impact strategic success. It is also clear that the impact of the program after completion can be directly assessed by monitoring the change in the KPIs selected which is already being done as part of strategic performance management – no extra work must be done to track the value delivered by the program (unless there are non-strategic results that should be verified too).

Consensus.

The Balanced Scorecard inherently builds consensus at the strategy level, but as with Alignment there is a need to ensure that that consensus carries over from the strategic level to the operational and transformation processes in order to ensure that behaviours are changed in a consistent way and that the organisation acts as single team with clarity in both decision making and action.

Alignment is not possible without consensus – if people do not agree on the direction or the speed at which to travel it is very unlikely they will arrive at the same destination at the same time.

Studies have illustrated that lack of consensus among stakeholders [11] and middle management [12] are frequent causes of project failure. Very often this is simply due to poor communication rather than other factors [4],[14].

A high level of organizational project management competency requires consensus among all managers and resource pool owners about what relative value any one project holds for the organisation, what resources it requires, and what it’s current state is (including risks and opportunities it faces). Team work, and a consistent and shared understanding of reality (one version of the truth) are needed to successfully plan and execute projects on a consistent basis, and an objective focus by all on a clear set of strategic objectives will greatly facilitate the execution and adoption of critical changes called for by Activity Objectives.[15]

There are two further aspects of consensus building that are directly addressed and promoted by effective project management practices. These not only promote more effective project and program management, but also enable the use of using common frameworks to promote consistency and harmony in project portfolio management and integrated risk management.

These aspects are Methodology and Measurement, and they are discussed separately below.

Methodology (Process).

A study in published in 2007 by PricewaterhouseCoopers [7] shows a strong correlation between organisations that run more successful projects and those that have an established and enterprise wide methodology for running projects. This is in accordance with other research done by PMI®

and IPMA® on this topic, and is further confirmed by a subsequent survey undertaken by PricewaterhouseCoopers in 2012 [8].

If we accept that the weight of evidence suggests that successful project execution relies in a large part on the deployment and consistent use of a sound project management methodology within the organisation, and that project management (in it's broad sense) is a critical capability for successful strategic execution, then we have to ensure that the way in which we run projects is consistent across the organisation and is driven by a measurable process that can itself be continuously improved and that ensures strong governance, legitimacy, transparency, reliability, integrity and consistency of measures and practice across the organisation. The methodology must allow for quality assurance of the project management processes while reducing the time taken to execute projects, increasing the success rate of projects, and ensuring that best practices and lessons learned are consistently applied to improve the project management processes where appropriate.

The use of a consistent and transparent process for project management makes it easier to ensure alignment and coordinated decision making (consensus) across the organisation, and also to ensure consistency of reporting into the portfolio and strategic management processes, as well as risk management processes.

Practical Step 2: Implement a simple methodology for project and program management across the organisation, at least for strategic projects and programs. Initially this needs to cover initiation and business cases, charters and status reports (with consistent and reliable measures allowing comparison of projects on a sound basis), and provide for some phase gates to allow appropriate levels of governance depending on size and type of project.

Without a consistently applied methodology the confusion created by differences in terminology, differing forms of estimation, risk management, scope management, measurement and governance all lead to higher levels of confusion, discord and conflict, resulting in a significant drop in consensus and alignment, and an increase in levels of re-work, with associated reductions in project success rates (own observations).

The impacts of rework and project delays and quality flaws that stem from using a weak methodology all contribute to delays in execution of Activity Objectives, and therefore directly impact on strategic success [8].

Measurement

Management of progress towards strategic success relies heavily on the ability to measure progress in Activity Objectives and Outcome Objectives and compare actual results to planned results (targets).

Both Arthur Schneiderman [5] and Gary Cokins [4] stress the need for right measures to be used in the first place in order to assess strategic performance. There is a strong requirement for measures collected to be credible, reliable and accepted by all concerned as the right measures to use, as well as being timely and useful in terms of managing behaviours required to achieve strategic objectives.

While many of the required measures will come from the existing production system and possibly monthly operational data etc., we know from the discussion on the SLM above, that about half of all the measures used to manage strategic performance on the Balanced Scorecard are taken directly from measures of project health or progress.

Even if there is consensus on what measures should be used, how they are calculated and by whom, and there is alignment on what needs to be measured and what we should do about measures that don't meet targets, there is still a need to know that the measure collection process does indeed compare apples to apples, and is not comparing apples to pears because projects are being run using differing methodologies and practices and measuring parameters across different areas of the organisation, or different project managers or for different types of project.

About half of the measures used to manage strategic performance are then being derived from project management processes, and reflect the success (or otherwise) of the project management behaviours of the organisation. For these measures to be both credible and useful, the organisation needs to ensure a consistent and reliable process is used for executing projects, that enables consistent, reliable, timely and comparable project management data collection, collation and reporting. This is of course the project management methodology, and it should be integrated and aligned with the strategic performance management system (Balanced Scorecard) and within the Portfolio Management System and Risk Management Systems.

Practical Step 4: Integrate portfolio management, program/project management, risk management and strategic performance management measurement and reporting processes to ensure simplicity, consistency, credibility and reliability of measures (as per KPI screens shown above, for example).

All of the above factors contribute to the final element that this paper proposes is significantly enhanced by having a strong organizational project management capability.

Project Value

A key deciding factor for any proposed strategic change/transformation will be the relationship of value expected to be generated by making a change to the organisation in some way, versus the costs of making that change and opportunity costs of not making some other change using that investment.

So an organisation might expect that by building a new factory they will increase their production by 30% and that will allow them to increase revenues by 40% and profits by 10%. Or they could expect that by investing in a new electronic services system they could reduce service times to the community by 30%, resulting in a significant improvement of services to the public.

How can a value be placed on these benefits? To do that a consistent approach (built into the methodology above) is required for estimating return on investment or benefit value in some way that allows valid comparison across projects, and the same approach to using consistent and comparable measures must be adopted when estimating the cost of the projects and their associated risks.

Anand Sanwal discusses this element at length in his book on Corporate Performance Management [10]. He stresses that a consistent and agreed and accepted way of estimating value and costs is a prerequisite for ensuring the right projects are selected and resource use is optimized in pursuit of strategic success for the organisation.

Under the section on Alignment we pointed out that there is a need to agree on where to focus, and under the sections on Measures and Methodology above we can clearly see the need to incorporate commonly agreed and accepted and credible methods for assessing value and estimating costs of projects across the organisation.

Without that the idea of selecting the right things to do and doing them correctly becomes very difficult.

As mentioned above, if we can review the projects in light of their contribution to moving measures on the Balanced Scorecard towards their targets, we can then rank them fairly easily by assessing their impact on our strategic performance at Strategic Objective (or Initiative) level so that top management can review these measures and compare them, and quickly assess the impact on any Objective if they execute the project, or perhaps fail to execute the project. If costs have been calculated using the same method (common methodology) then both value and costs can be compared on a practical and reliable basis with well understood assumptions, and the strategic management team can make better informed decisions.

Conclusion.

There are several core aspects of strategic execution that are significantly enhanced when an organisation has a strong level of competency in project management.

Alignment, consensus, consistency and quality (methodology), measures and project value calculations are all significantly improved in the presence of good project management processes.

However, a simple examination of a modern Balanced Scorecard highlights the need for project management competence clearly.

We need only look at the Activity Objectives to understand these are predominantly projects or programs or portfolios in nature, and that we will always have at least one portfolio of projects (whether formally recognized or not) that must be executed in order to achieve strategic in practice.

Research, literature and personal experience clearly indicate that projects are more often successful with strong methodology in place, and that failure is all too common when we don’t have sound methodologies.

To summarise, there are several aspects that need to be addressed to achieve successful strategic execution. One aspect is organizational project management capability, and there are a few practical steps that an organisation can take to improve strategy execution using project management.

These are:

1) Ensure Activity Objectives (or Strategic Initiatives in older terminology) are being driven by real programs/projects with approved plans and budgets.
2) Ensure a consistent methodology is in place for program and project management that is supported by all stakeholders and sponsors and provides credible, comparable and consistent measures to inform management decision-making and sound governance and improvement mechanisms for project management.
3) Ensure a portfolio management process is in place that can bridge the gap between strategic performance management and program/project management using integrated

measures with strategic performance management, risk management and program/project status data aligned and integrated to support better strategic management.

4) Ensure that a governance and risk management process exists that maintains strategic, portfolio and project risks and performance within levels set by the organisation's policy and strategy, and is supported by consistent and reliable estimation and project valuation methods.

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