THE IIL/WILEY SERIES IN PROJECT MANAGEMENT

# Value-Driven PROJECT MANAGEMENT

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WILEY

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# CONTENTS

# PREFACE

For more than 40 years, the traditional view of project management was based on a belief that if you completed the project by adhering to the well-known triple constraint of time, cost, and performance, the project was considered to be successful. Perhaps in the eyes of the project manager and possibly the sponsor, the project appeared to be a success. But in the eyes of the customer or even the parent or sponsoring company's senior management, the project might be regarded as a failure.

The changing economic climate and the increasingly competitive global environment are driving project managers to become more business oriented. Projects are now being viewed from a strategic perspective and as part of a business or enterprise for the purpose of providing value to both the ultimate customer and the parent corporation. Project managers are expected to understand business operations much more so today than in the past. Some companies have begun developing and delivering internal training programs for their project managers specifically focused on business processes. As project managers become more business oriented, the definition of project success now includes a ***business component***. The business component is directly related to value.

Projects must provide some appreciable degree of value when completed in addition to meeting the objectives associated with the triple constraint. Perhaps many project managers believe that achieving the parameters of the triple constraint means providing value, but that's not always the case. Why should a company select and assign resources to work on projects that provide no measurable and documentable near-term or long-term value? Too many companies are either working on the wrong projects or simply have an inadequate project selection process. Project portfolios are filled with projects

that do not provide real value at completion even though the triple constraints have been managed carefully and met.

Assigning valuable resources to projects that provide no appreciable value internally to the organization or externally to a client is an example of truly inept management and poor decision making. Yet selecting projects that will guarantee value or an acceptable return on investment (ROI) is very challenging because some of today's projects do not provide the targeted value until perhaps years into the future. This is particularly true for research and development (R&D) and new product development, where as many as 50 or more ideas must be explored to generate one commercially successful product. In the pharmaceutical industry, the cost of developing a new drug could run about $850 million, take 3,000 days to go from exploration to commercialization, and provide no meaningful return on investment. In the pharmaceutical industry, less than 3 percent of the R&D projects are ever viewed as a commercial success and generate more that $400 million per year in revenue.

There are, of course, multiple views of the definition of value. For the most part, value is viewed very similarly to how we view beauty—it is in the eyes of the beholder. In other words, value may be viewed as a perception at project selection and initiation based on data available at the time. But at project completion, the actual value becomes a reality that may not meet the expectations that had initially been perceived.

Another problem is that the achieved value of a project may not satisfy all of the key stakeholders since each stakeholder may have a different perception of value as it relates to their particular business function. The definition of value can be industry specific, company specific, or even dependent on the size, nature, culture, and business base of the firm. Some stakeholders may view value as job security or profitability. Others might view value as image, brand recognition, reputation, or the creation of intellectual property. Satisfying all stakeholders is a formidable task that is often difficult to achieve and, in some cases, may simply be impossible.

When the true value of a project is obtained, the company must decide how to capitalize on what has been gained. The projects and associated procedures that resulted in the value can either lead to or become examples of best practices that are formally documented and advertised in organizational literature. Other forms of value may be seen as company proprietary information and intellectual property that differentiates the company from competitors, the details of which are not released publicly. In any event, the ultimate goal is to define and achieve value.

Harold Kerzner, Ph.D.
Frank P. Saladis, PMP
International Institute for Learning, Inc., 2009

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—Harold Kerzner, Ph.D., and Frank Saladis, PMP

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Chapter

# 1

# HOW PROJECT MANAGEMENT HAS CHANGED

## WHY TRADITIONAL PROJECT MANAGEMENT MAY NOT WORK

New projects have become:

- Highly complex and with greater acceptance of risks that may not be fully understood during project approval
- More uncertain in the outcomes of the projects with no guarantee of value at the end
- Pressed for speed-to-market irrespective of the risks

Traditional project management works well when the direction of the project is clearly understood, the scope is well defined, all key stakeholders agree on the objectives and expectations, the risks have been assessed and well understood, and the probability of success is considered to be very high. In comparison, for companies that wish to be innovative and become market leaders rather than market followers, the type of projects approved may be based on "fuzzy" objectives, optimism, and a willingness to take risks and basically do not follow a specific set of selection criteria.

More and more projects are highly complex and may require a technical breakthrough to achieve success. In addition, the risks associated with achieving the breakthrough can be significant, there is no guarantee that the project will be successful, and that the expected value at the completion of the project will be achieved. If a market leadership position is desired, project planning and execution are further complicated by competition and the requirement to compress the schedule for an early introduction into the marketplace.

Today's projects are not necessarily as well defined and understood as projects in the past. The global economy, rising costs, and competition are driving many companies to take greater risks to achieve their business objectives. As a result, the traditional theories of project management may not work well when applied to these new types of projects. We may need to change the way we manage and make decisions about projects. Business decisions and requirements may very well override technical decisions and project requirements.

The statement of work (SOW) is:

- Not always well defined, especially on long-term projects
- Based on possibly flawed, irrational, or unrealistic assumptions
- Inconsiderate of unknown and rapidly changing economic and environmental conditions
- Based on a stationary, rather than moving target for final value

As projects become more complex, the statements of work (SOWs), in many cases, become less well defined and possibly ill defined. Typically, with all SOWs, assumptions are developed. When dealing with long-term projects, assumptions about environmental conditions and the economy are subject to considerable change and almost impossible to truly define with any sense of confidence. In such cases, the value achieved from the deliverable can be expected to become more important. Also, the achieved value may not have been fully understood initially and may have changed over the life of the project. Therefore, the final value of the project may be a moving target rather than a stationary target, and the intended customer and associated stakeholders may have to accept a deliverable with a final value that is quite different from initial expectations. The greater the project duration, the greater the chance that the final result will be significantly different from the initial objectives.

Given our premise that project managers are now more actively involved in the business, we must track the assumptions the same way that we track budgets and schedules. If the assumptions are incorrect or no longer valid, then we may be required to change the plan, change the SOW, or consider canceling the project. We should also track the project's expected value as decisions are made because these decisions may result in unacceptable changes to the final value of the project and could create a reason for project cancellation. These concerns will be discussed in later portions of the book.

The management cost and control systems (EPM Methodologies) focus on:

- An ideal situation (as in the *Project Management Body of Knowledge* [*PMBOK* ®] *Guide*)
- Theories rather than the understanding of the work flow
- Inflexible processes
- Periodically reporting time at completion and cost at completion but not value (or benefits) at completion
- Project continuation rather than canceling projects with limited or no value

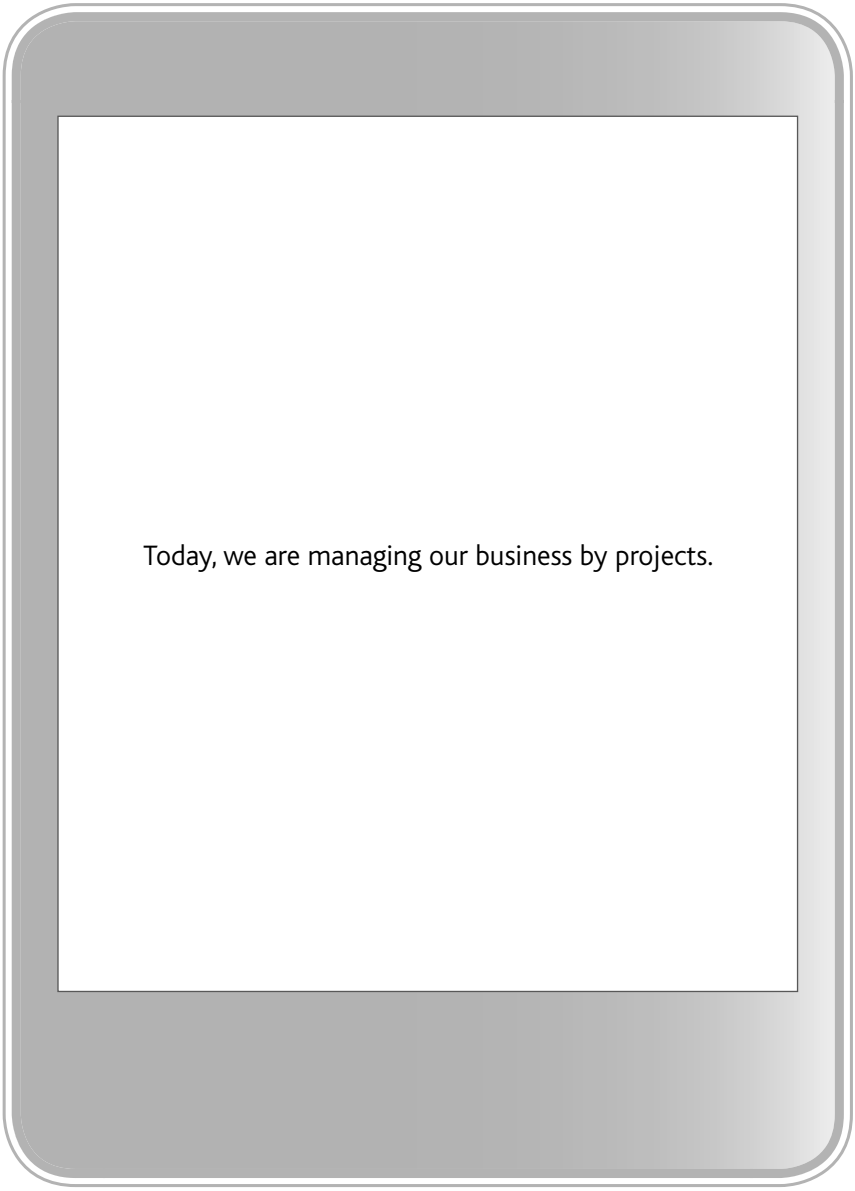
Most companies either have or are in the process of developing an enterprise project management (EPM) methodology. EPM systems are usually rigid processes designed around policies and procedures, and work efficiently when the statement of work is well defined. But with the new type of projects expected over the next decade, these rigid and inflexible processes may be more of a hindrance.

EPM systems must become more flexible in order to satisfy business needs. The criteria for good systems will lean toward forms, guidelines, templates, and checklists rather than policies and procedures. Project managers will be given more flexibility in order to make decisions necessary to satisfy the business needs of the project.

In the future, the assumption that the original plan is correct will become an increasingly poor assumption. As the providing or receiving organization's business needs change, the need to change the project plan will become evident. Also, decision making based entirely on the triple constraint, with little regard for the final value of the project, may result in extreme stakeholder dissatisfaction or significant opportunity cost.

Simply stated, today's view of project management is quite different than the views of the past, and this is partially the result of recognizing the many benefits realized through project management over the past two decades. The following illustrations show the changing views.

## TODAY'S VIEW OF PROJECT MANAGEMENT



After more than 40 years of analysis, lessons learned, and the distribution of volumes of best practice documents; companies have come to the realization that a defined and efficiently implemented project management methodology does work and is very beneficial to an organization's growth and stability. The fundamental principles of project management can be applied to all parts of a business. Simply stated, companies are managing their business through projects, and every major activity within a company can be viewed as a project.

Project management, as a discipline, affects all parts of a business and is present at all levels of management. Each functional unit generally manages projects that support higher-level business objectives, and line managers or functional managers are being trained in project management techniques to manage projects that are exclusively within their functional area. Although project management has been viewed as a profession, it is only within the last decade or so that companies have been creating specifically designed career paths and positions for project managers.

Of significant importance is the focus on training executives to function as project sponsors. In this role, the project sponsor provides the project manager with funding and critical project information (business-related information affecting the project), which eliminates roadblocks facing the project manager. The sponsor also acts as the referee or facilitator in resolving major conflicts and problems between the project manager and other business units or functional entities.

Project management has evolved into a business process rather than a project management process.

Because project management affects all parts of a business, it is now viewed as a business process rather than merely a methodology to meet a specific objective. This aligns itself with the current trends toward EPM.

Historically, during competitive bidding activities, contractors would emphasize only their project management processes and how they would be used to produce the deliverables to meet the customer's needs. Today, companies are integrating project management processes with their business management processes to become more efficient, promote interest, and attract new clients. Some companies have even been fortunate enough to receive single-source contracts because of the faith that the customer has in the contractor's ability to repeatedly meet deliverables.

It is important to understand that meeting the customers' requirements is sometimes accomplished through the expense of disrupting the corporate culture and ongoing business operations. Today's project manager must be knowledgeable about both the business processes and the project management processes to make the most appropriate and effective decisions in the best interest of the company and the project.

The EPM methodology contains business processes as well as project management processes.

We discussed the importance of project management being integrated into business processes. The reverse is also true in that business processes are being integrated into formal project management methodologies. Historically, project management methodologies contained the following:

- Step-by-step processes for planning and managing projects
- Concurrent engineering (improved speed to market)
- Total Quality Management (TQM) and Six Sigma
- Risk management
- Change and configuration management

Many companies have adopted an EPM methodology, which is basically one methodology selected for use by all business units to manage all projects. With an EPM methodology in place and practiced, it is fairly easy to integrate many business processes into the methodology such as:

- Supply chain management
- Feasibility studies
- Cost-benefit analyses
- Capital budgeting

Capturing best practices is a necessity in today's business world. This includes best practices in business as well as best practices in project management.

Capturing best practices has become a business necessity. Best practices libraries are viewed as competitive weapons and can create significant advantages during the bidding process. Consider a company that issues a request for proposal (RFP) and receives identical lowest bids from two bidders. The first company has a well-maintained and utilized best practices library and is willing to share the library with the client upon contract award. The second low bidder does not maintain a best practices library. With all other things being equal, the first company would generally be awarded the contract.

Historically, project managers have been expected to capture best practices, but related to project management only. Today, because project managers are now being viewed as business managers as well as project managers, they must also capture business-related best practices. Not all of the best practices are shared with the customers, however. The business-related best practices may be viewed as proprietary knowledge and not shared externally with customers or contractors. Some companies even maintain two best practices libraries—one for the customer's benefit and one for internal use only. But, in any event, the capturing of best practices is a business necessity.

## CHANGING VIEWS OF PROJECT MANAGEMENT

| | Historical View | 1990 | Today |
|---|---|---|---|
| Project manager's role and responsibility | Monitor and control during execution | Planning for project execution | Strategy development and project selection input |
| When brought on board | After contract award or at end of initiation | During proposal preparation | During concept development and input in the bid/no-bid decision |
| Knowledge requirements | Technical knowledge (command of technology) | Mostly technical but some business knowledge | Mostly business but some technical knowledge (understanding of technology) |
| Customer expectations | Deliverables | Deliverables | Business solutions |
| Definition of success | Meeting the triple constraint | Meeting the triple constraint | Multiple success criteria (both project and business success) |