

# Maximizing the Internal Value of Company Projects

## Maximierung des internen Wertes von Projekten im Unternehmen

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**Abstract** — This research paper focuses on the topic of project success from the perspective of the companies executing the projects. It explains what project success means and why it is important to establish a well-working Project Portfolio Management process, in addition to Project Management. It also highlights the most important Project Portfolio Management practices that enable the project success and it brings in survey results to discuss the present implementation of those practices. The paper ends with a proposal on next steps for further research and process improvement implementation.

**Zusammenfassung** — Der Augenmerk dieses Forschungspapiers richtet sich auf das Thema Projekterfolg aus Sicht der durchführenden Unternehmen. Es erläutert, was Projekterfolg bedeutet und warum es wichtig ist, über das Projektmanagement hinaus, einen gut funktionierenden Projekt Portfolio Management Prozess zu etablieren. Es werden die wichtigsten Projekt Portfolio Management Praktiken vorgestellt, die einen Projekterfolg ermöglichen. Eingebrachte Umfrageergebnisse geben dabei Aufschluss über die Implementierung dieser Praktiken, die im Anschluss diskutiert werden. Die Arbeit schließt mit Vorschlägen für weiterführende Untersuchungen und Implementierung von Prozessverbesserungen.

### I. INTRODUCTION

Project Management is not a new process. Since centuries, people have been structuring their work into projects. Examples include the Pyramids of Giza, the Olympic games, the Great Wall of China, Taj Mahal, humans landing on the Moon, and many, many more [1]. Today, 30% of the global economy is project-based [2].

Even with such an extensive Project Management experience, around 70% of all started projects are either challenged in some way or completely fail (see Fig. 1). This equates to 1 million USD wasted every 20 second globally on poor Project Management practices, which rounds up to 2 trillion USD a year [3].

### II. OBJECTIVE

Presently I work as a Senior Quality Manager at an IT organization of around 10,000 people in size. Our work is structured into projects and I experience first-hand the daily struggles of different specialists (incl. myself) assigned to various IT projects, as well as the company as a whole, while trying to bring these projects to successful completion.

The goal of this research is to set the direction for enabling organizations to successfully and consistently deliver projects that add value. The main focus is not so much on the Project Management process, because its scope is limited to one project only. The intention is to look broader at the internal strategic and governance elements that impact Project Management and see how those can be improved in order to achieve project success consistently. In that sense, certain elements from the behavior of the Project Management process can serve as an input for identifying improvement opportunities on the strategic/governance level, and

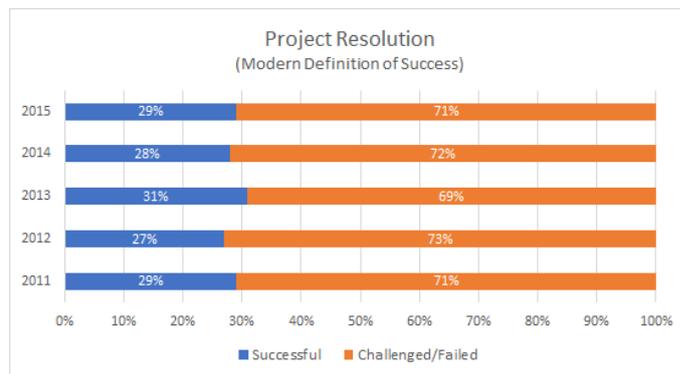


Fig. 1. Project success in the years 2011-2015 [4]

also as indicators of whether improvement has indeed been achieved.

### III. ANALYSIS

The structure of this research can be broken down into two parts:

- Single-project scope: What are the criteria for a successful/unsuccessful project?
- Multiple-project scope: What are the strategic/governance elements impacting the project success?

#### A. Single-Project Scope

Until recently, project success has been defined by completing the projects on time, on scope, and within budget [4, 5, 6]. However, none of these three project attributes provide any visibility as to whether the project actually

Q: Of the projects started in your organization in the past 12 months that were deemed failures, what were the primary causes of those failures? (Select up to 3)

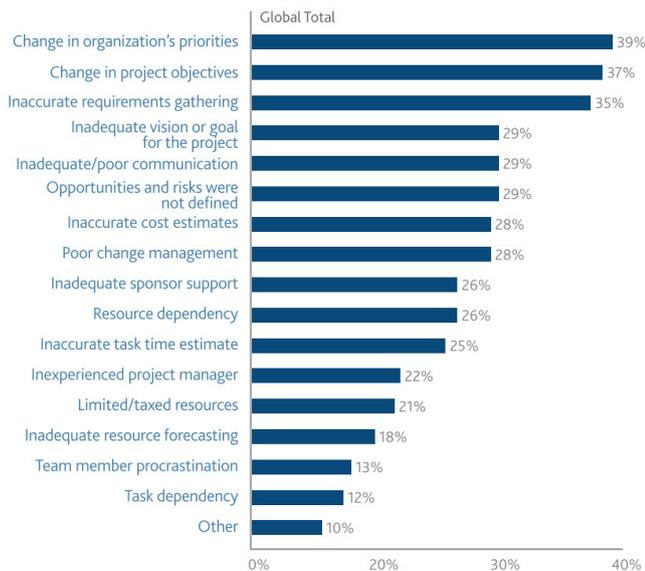


Fig. 2. Survey results from 4,455 Project Management Practitioners (global total) [7]

brought value to the customer, whether the delivered product/service was of the expected quality, etc. Therefore, more and more definitions of project success are emerging to include more factors (aka "constraints") than the traditional three, such as:

- on time, on budget, on target, on goal, value, satisfaction [4];
- time, scope, cost, quality, risk, value, image/reputation [5];
- product and project quality, timeliness, budget compliance, degree of customer satisfaction [6].

As observed, there is not one single definition of project success. What project success is (financial and qualitative criteria) and how it will be measured throughout the course of the project is left to the organizations to define prior to the start of the project, typically in the business case [1].

Even without a clear definition of project success, one element is becoming more and more prominent: value / customer satisfaction. [2] and [5] argue that the new definition of project success will be based on value only. Value can then be further decomposed into: time, cost, quality, technology and scope, client satisfaction, and risks [5]. In this way, all constraints to achieve the project success will become components of the value constraint.

To understand what value means, we can look into its definition: A project's business value is the benefit that the project results provide to its stakeholders [1]. The benefit from projects may be tangible (monetary assets, stockholder equity, utility, fixtures, tools, market share, etc.), intangible (goodwill, brand recognition, public benefit, trademarks, strategic alignment, reputation, etc.), or both.

Needless to say, the project's value is not only linked to external customers, but also to internal stakeholders. A project stakeholder, by definition, is any person, group, or

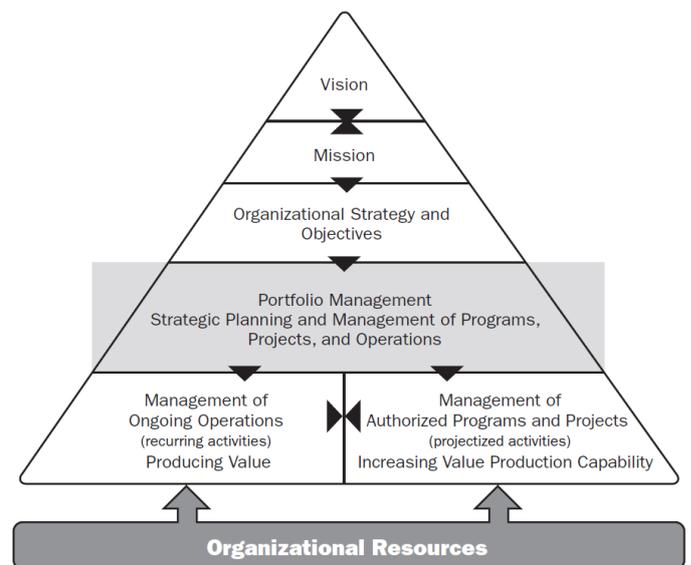


Fig. 3. Organizational context of Project Portfolio Management [6]

organization that can impact or be impacted by the project [1]. Therefore, a project will not be considered successful if it provides the intended value to the external customer, but not internally to the company delivering the project.

In order for a company to ensure its projects deliver value internally as well, it has to keep them in a constant alignment with its strategic direction [6]. However, [7] shows that changes in the organizational priorities and changes in the project objectives are the most frequent reasons for project failures (see Fig. 2). One possible explanation is the lack of strong alignment between the value a project will deliver and the company's strategy from the very start of the project.

Another possible explanation, however, is sponsorship. Organizations have limited resources to invest into their projects. This causes projects to be in a constant competition for some or all of the company resources [6]. Consequently, not sponsoring a project, strategic goal, or any other type of initiative means failing to achieve its purpose and benefit from its results.

Because of these two reasons - strategic alignment and sponsorship (i.e. resource allocation) - we have to refer to the Project Portfolio Management process (see Fig. 3). A portfolio is a collection of projects, programs, subsidiary portfolios, and operations managed as a group to achieve the company's strategic objectives [6]. In other words, the scope of the Project Portfolio Management process is all projects inside a company.

In comparison, the main definition in Project Management is: A project is a temporary endeavor undertaken to create a unique product, service, or result [1]. In other words, the scope of the Project Management process is a single project. However, an individual project can not tell us whether all company strategic objectives have been met, or whether all company resources are being utilized in the best possible way. We have to look into all projects as a whole to give answers to these questions.

## B. Multiple-Project Scope

Project Portfolio Management manages the collective whole and the relationships among projects, programs, subsidiary portfolios, and related operations (aka "portfolio components") in a way that brings value to the organization [6]. Value is the primary focus and also the criterion by which the portfolio components are evaluated and added to the portfolio. The portfolio success is measured in terms of the aggregate investment performance and benefit realization of the portfolio, i.e. the entire quantifiable and qualifiable benefits, worth, and usefulness of the organization (all tangible and intangible elements of the business value). And the success of the whole Project Portfolio Management process is measured by whether it optimizes investments and meets the organizational strategic and operational goals.

By applying the Project Portfolio Management practices, the company ensures that the investment in a portfolio delivers the required return to its stakeholders as defined in the organizational strategy and as expressed by the portfolio components (projects and programs) [6]. The underlying premise is that if a portfolio component successfully builds its assigned deliverables, it can make its contribution to the chain that links the deliverable to component outcome to benefit to value all the way up to the organization's mission (see Fig. 4).

Fig. 4 also shows that, to enable the portfolio components to execute successfully, the Project Portfolio Management process has to set the stage by:

1. ensuring the portfolio is aligned to the strategy,
2. designing the portfolio, and
3. governing the execution of the portfolio.

From there on, we move down to the level of Project Management, which manages the actual portfolio component delivery and, thus, realizes the value of the whole portfolio.

1) *Strategic Alignment*: In order for Project Portfolio Management to use the strategic objectives as input, they have to a) exist, and b) be of the expected quality.

The strategic objectives are created on the basis of the organizational vision and mission [6], therefore, these prerequisites need to be in place too. The stakeholders then break the company's path (i.e. strategy) to achieve its vision into more manageable steps, which represent the company's strategic objectives.

Once defined, the strategic objectives should be all of the following [6]:

- Understandable: Is it stated simply and easy to understand?
- Suitable: Does it fit with the vision and mission?
- Acceptable: Does it fit with the values of the organization and the employees?
- Flexible: Can it be adapted and changed as needed?

The benefits of having a clear and working strategy are well known. A recent study [8] shows that companies which get strategy right are three times as likely to report above-average growth, twice as likely to report above average profits, and generate 14.2% higher annual Total Shareholder

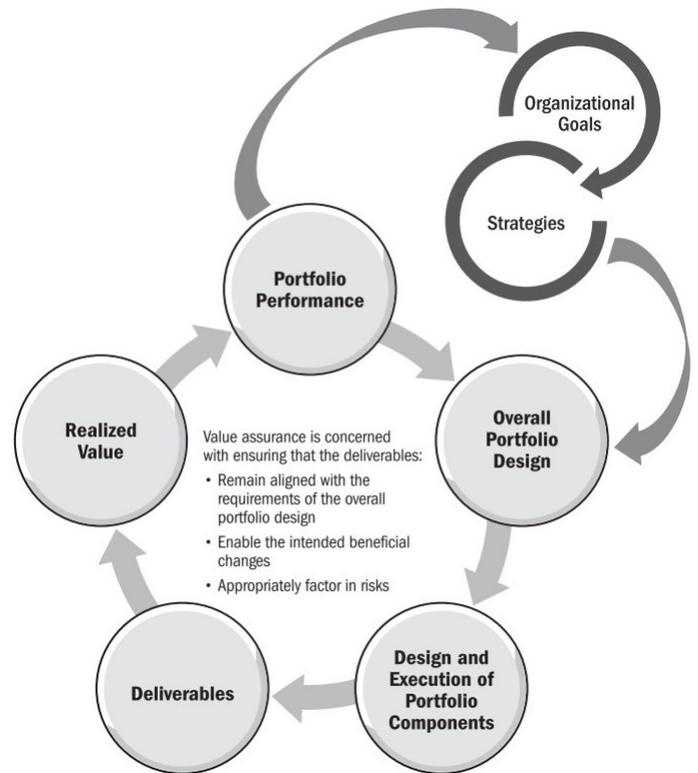


Fig. 4. The link between strategy and portfolio performance via the component deliverable [6]

Return (TSR), based on capability-driven deals. And yet, 79% of the surveyed leaders say their company does not have a list of strategic priorities, and 63% say their company does not have a well-defined strategy and a clear sense of where it is heading. This suggests that the companies still do not know what their competitive advantage is, what to focus on, and what to let go of, in order to formulate a clear vision and strategic path to it.

2) *Portfolio Design*: Once the organizational strategy is in place, the next step is to identify what benefits the projects will bring, in order to make an informed decision of whether a portfolio component is in alignment with the organizational strategy or not, i.e. whether it should be part of the portfolio or left out. Proposed portfolio components or current inventory of work either not aligned with the organizational strategy or deemed unlikely to deliver the intended value are not recommended for inclusion in the portfolio [6].

The survey carried out in [9] shows that nearly three quarters of the organizations frequently identify the project benefits before the project start. At the same time, the report also shows that 83% of the projects suffer from a lack of maturity with benefits realization, 48% of the projects are not well-aligned with the organizational strategy, and 62% of the projects that are not well-aligned with the organizational strategy are implemented nevertheless.

The possible reasons for this project misalignment to the company strategy are shown in Fig. 5. They suggest that the project stakeholders are focusing too heavily on maximizing their Return on Investment (ROI), losing sight of the project's (and portfolio's) true requirement, which is to return value. This is a very common mistake, also pointed out in [6].

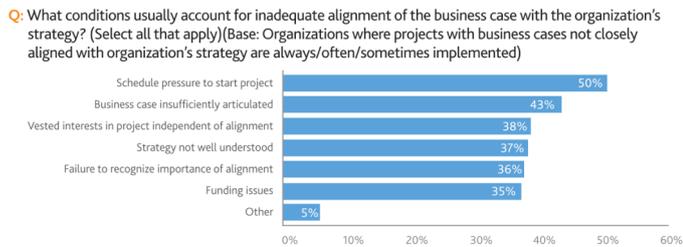


Fig. 5. Survey results from 1,189 Project Management Practitioners (global total) [9]

It is important to note that identifying the project benefits upfront also informs the organization about what metrics to use to track if the projects are performing as expected [5, 9]. Therefore, failing to identify, agree on, and prioritize the project value elements with all stakeholders at the project start also leads to a) lack of project control while the project is already ongoing, and b) inability to assess if the project has been successful at project closure.

3) *Portfolio Governance*: To enable effective management of the portfolio, the results (expected or realized) of its components should be measured, ranked, and prioritized [6]. Prioritization shows which portfolio component the organization should invest in at any given time. Not every component has the same urgency. It is important to recognize the sequence of component completion based on the organizational goals and be able to facilitate the higher-priority components first, followed by those lower on the list.

To enable prioritization, the organizations need a way of describing their projects so they can compare them [10]. They do this by assigning attributes, which form the basis of a categorization system.

To investigate the successful implementation and operation of project categorization systems, [10] also performed a survey. According to it, 39% of the companies classify some of their projects (but not all), and 16% of the companies do not classify any of their projects. Some of the reasons for these results are: categorization is an abstract concept, project attributes are not linked to the purposes for which they are used, difficulties in using the categorization system (e.g. system is too complex), etc.

The conclusion is that companies are either not convinced that project categorization systems can align organizational capability with strategic intent or they do not believe such alignment is needed. In any case, a minimum of 55% of the organizations are presently not utilizing their resources in the optimal way and, thus, maximizing the value their projects can bring.

#### IV. SUMMARY

Project success is an interesting topic, because a) people tend to organize their work into projects, and b) they want to see their investment bring its intended results. That is why, in business terms, project success is measured by the value it brings to its stakeholders. The value is realized by the total sum of all projects and is, therefore, better managed by the practices of Project Portfolio Management than Project Management alone.

Project Portfolio Management enables the project success by governing and aligning the projects to the company

strategy, which in turn brings the company closer to its vision and mission. Several surveys show, however, that the Project Portfolio Management practices are not well understood and/or implemented. As a result, in 70% of the started projects the benefits are compromised and investment is lost.

#### V. EPILOGUE

This research paper sets only the initial steps for enabling project success every time. It highlights the major areas of concern when it comes to project/portfolio governance and strategic alignment, which prevent companies to realize their full potential.

As next steps, further analysis can be performed inside real-life groups of projects and portfolios to understand in more detail why the current Project Portfolio Management practices are at least partially ineffective. It is possible that these practices are not fully implemented, in which case the ways of working of the organization(s) can be improved. There is also the chance that the current theory may have some flaws, which prevent its full implementation and effective execution. In that case, an improved theoretical model can be proposed.

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