

Linking Portfolio, Program, and Projects to Business Strategy: A Way to Gain Competitive Advantage in this Turbulent Time

Victor Anyosa, PMP, PHD Candidate, CEO PM&B Consulting

Abstract

During the last 10 years, many organizations around the world have been dealing with linking portfolio, program, and projects to business strategy in order to get the best value of their strategy implementation. However, most of these organizations have only defined the link as the criteria to select right projects, forgetting linking strategy throughout the whole project development life cycle (selection, prioritization, resource-balancing, initiating, planning, execution, controlling, and closing), and losing the benefits of competitive advantage that produce this complete linking.

This paper provides a model that integrates portfolio, program, and projects with business strategy, assuring that most organizations implement their strategy and getting the best benefits from them. The Project Management Institute's portfolio management, program management, and *Organizational Project Management Maturity Model (OPM3®)* standards practices have been considered in this integrated model; strategies and models from Kaplan and Norton, Michael Porter (1980), and Mintzberg (1998), were also considered.

The model organizes portfolios by classifying programs and projects as strategic (corporate benefit), tactical (business unit benefit), and subsistence (necessary for continuing business operations). Also for each project, it evaluates its alignment with business objectives and strategies and at the same time defines the benefits (ROI, client loyalty, market growth, cost saving, social and environmental impact, etc) that any project and program can achieve making predictable business results. In general, this model lets organizations move quickly in the business arena during this turbulent time, gaining competitive advantage through the right implementation of portfolio, program, and project strategy, and creating the successful project spirit to succeed in this challenge.

Environment of Project Management and Business Strategy

All organizations around the world regardless of sectors, such as IT, banking, energy, mining, oil, construction, etc., have been working on linking their strategy with the way they do projects. In this setting, we see the following issues they are experimenting in this process:

- Most organizations do not have a structured business strategy with specific business objectives, in the short, middle, and long term.
- Most organizations that have their business strategy cannot execute it well. The functional area, in charge of tracking it, is not familiar with the project environment.
- Projects have a weak alignment with business strategy because most of the projects of the portfolio were conceived to attend urgencies in the operations or attend to some specific requirements of some senior managers.
- Organizations that link their projects with their strategy do this because of the formulation of the projects, but they do not verify it during the whole project life cycle, especially after any change.
- Most project managers assume that the project that they are managing is fully linked with the strategy. However, in some cases, this results in obsolete project benefits by the time it is executed.
- There is interrelation among the people involved in strategy definition and strategy execution.
- In some organizations, project teams are not exposed to business strategy, and in most of the cases, they do not know it.

- There are many models about business strategy (Kaplan and Norton, Porter, etc.) and few of them define project initiatives.
- There is no balance in the project portfolio based on the alignment with business strategy. This results in a weak overall strategy execution

Despite all these issues there are plenty of opportunities to work on strengthening the linking of project management and business strategy, as we will mention in the following.

Rethinking the Concept of Strategy and Trends in the Business Arena

The definition of strategy was not born in the modern times; it was created in the ancient times but was more focused on winning a war such as it is mentioned in *The Art of War* by Sun Tzu (400 B.C). Since that time, and especially in the last 50 years, the fundamentals about strategy have been implemented into the business arena.

But what is the definition about strategy? It is a plan, it is an attitude, and it is a way to win a business challenge. In general there is no a unique definition, strategy is “a plan of action designed to achieve a particular goal” (“Strategy,” n.d.). Tse and Olsen (1999) defined strategy as how to better deal with competition, and for Porter (1980) it is how to win the competitive advantage as he explain in his three generic strategies: cost leadership, differentiation, focus. For Thompson and Strickland (1995), it is advantages that provide organizations with the benefit that will sustain them when attracting customers and defending themselves against competitive forces. For Wright, Pringle, and Kroll (1992), it is top management plans that attend to outcomes consistent with the organization’s mission and goals. Actually, many authors have written about strategy; however, in my opinion, the one who is close to the most appealing definition is from Mintzberg, Ahlstrand, and Lampel (1998). They rethought the concept of strategy and define it as the 5 P’s (**p**lan a course of action, **p**attern of behavior, **p**osition with some products in specific markets, **p**erspective and **p**loy), and as a summary, we can say that **strategy is about business success not just a plan.**

Linking Strategy throughout the Whole Project Life Cycle

Most companies who have a well-defined strategy try to link their strategy with their projects; however, most of them do this just at the initiation of the project (project selection) or during the formulation period for budget approval. It is necessary, however, that the linking be assured during the whole project life cycle, which means during initiation, planning, executing, controlling, and closing the project. Every change in strategy must be communicated to the project, and every change in the project must be analyzed in terms of the impact in the strategy (business results).

During the planning of the project, we must articulate the scope, time, cost, quality, communication, risks, procurement, and human resources to achieve the business results while defining the criteria for project success in terms of business results and restrictions such as time, cost, quality, and other relevant components. In general, a project strategy must be established in this stage to gain competitive advantage thru the successful implementation of this project.

During the execution, decisions must be taken in terms of business objectives, which means that if there is the necessity to add some scope to guarantee better business success, it has to be done even if the project increases their cost or time. The sense of achieving business results must be translated to the project team and stakeholders to develop an active spirit within the team.

During the monitoring and control, communications must be submitted to present the project progress in terms of business results and issues, and risks should be communicated showing the impact in the specific business objectives of the project and, in general, in the overall business strategy.

During the closing, an evaluation of the business benefits achieved must be executed and lessons learned about the process must be recorded and communicated.

In general, we would say that linking project management with strategy is not only at the project level but also at the program and at the portfolio level. In terms of a portfolio, it is typical to see projects executed just to satisfy

urgencies or interests of some senior managers, and not strictly executed to achieve business results. If you analyze where most of the organization's budget is invested, you will find that a great percentage of it is invested not in strategic business initiatives but in the subsistence of the business or unnecessary initiatives.

A Model for Linking Business Strategy to Portfolio, Program, and Projects

A model to link strategy and projects must have already defined specific categories about strategy in order to try to cover broadly the general business strategy. It is important to assure that strategic objectives have been defined with a complete analysis of the strategy as you can do with models such as Kaplan and Norton's balanced scorecard. After an analysis in the diverse components of business strategies of many authors, here are my categories:

Operational efficiency: Measure how efficient the organization is in terms of their operations. It comprises projects of automation, cost saving programs, organizational change, certification and process improvement and human resource development.

Operational production and stability: Comprises the production of the organization's goods and services without interruptions such as shutdowns. It comprises the stability of the plant operations, IT operations, and the normal daily production.

Growth: Means how much you are investing in growing your business or how important it is for your company. It comprises the increase of national or international channels or branches, the market share, and the increase in profits and sales of the organizations.

Customer intimacy: It measures the level of loyalty and satisfaction from the clients about the company's products and services.

Differentiation: Measure the level of differentiation a company has over others; for example, the level of product advantage or innovation (radical changes in the products and services).

Law compliance: It measures the level of compliance of the organizations with the law. Usually all organizations are requested to comply with regulatory requirements from government institutions.

Sustainable development: Measure the level of sustainable development initiatives that companies are implementing.

All organizations have to define the categories that they will address as part of their strategy. Almost all categories apply to many organizations and selecting from this list would be an easy way to determine the specific strategic objectives as it is shown in Exhibit 1.

	Categories of Strategic Objectives	Type of Strategic Objectives	Strategic Objective (examples)	Weight
1	Operational Efficiency	Management Automation	Automatize the Organization	20%
		Cost Saving Programs	Reduce in 20% Operational Expenses	
		Organizational Change	Make an Agil Organization	
		Process Improvement (Certifications & Others)	Obtain ISO and OSHA Certification	
		Operational	30% Profits & Sales increase	
		Human Resource Development	95% completion of personnel competence plan	
2	Operational Production & Estability	Plant Production	99.8 % Plant Production	20%
		Plant Maintenance & Improvement	99 % Plant Stability	
		Plant Automation & Optimization	Plant Automation & Optimization	
		IT Operation & Technology Advance	99.5% IT Stability & Up to date Technology	
3	Growth	Business Expantion (National & International)	Increase channels 10% National and 20% Internationally	10%
		Market Advance	40% Market Share	
4	Customer Intimacy	Customer Satis faction Programs	95% customer satisfaction	5%
		Reputation	95% customer loyalty	
5	Diferentation	Innovation (Radical Product, Cost & Time Advantage)	30% new products (non traditional)	10%
			Reduce time to market in 20%	
		Product Advantage	10% Product Improvement	
6	Law Compliance	Regulation Change	100% Compliance with Rules & Regulations	15%
7	Sustainable Development	Safety & Security	cero security incidents	20%
		Community Relationship	cero social conflicts & 100% Community Acceptance	
		Environmental Management	cero environmental impact	

Exhibit 1: Strategic objectives

For many companies having the strategic objectives defined (Exhibit 1) would mean to have the business strategy completed, however, for project management professionals, strategy could not be completed until the specific projects for achieving those strategic objectives have been defined.

It is important for every strategic objective to define the programs and projects that, after their completion, will achieve the strategic objective. In some cases, considering the aggressiveness of the organizations they can define programs to satisfy specific strategic objectives. Once we have finished the definition of all projects and programs, a portfolio balance must be executed in order to guarantee that the project selection is balanced with the availability of financial (operational and capital) resources and staff-hours. Before finalizing the portfolio of projects, it is very important that the portfolio be balanced in terms of the strategy, which means that the project portfolio must satisfy the business strategy in the priority indicated by the weighting column shown in Exhibit 1.

A typical portfolio of projects must show a project category to focus the attention of resources over the most strategic categories. In this paper we will use a project category comprised of the following:

Strategic—These are projects that generally benefit the organization (critical for business success), usually involve the participation of many functional areas, and most of the time are of high risk and involve major investments.

Subsistence—These are projects that must be done in order to continue business operations, are usually requested from government entities or critically needed to fix critical interruptions (shutdown and others) in the operations.

Tactical —These are projects of specific interest of one or more functional areas but not of general benefit for the organization.

Every project must be classified as strategic, subsistence, or tactical and at the same time be aligned with the business strategy, especially because some projects would contribute with the achievement of more than one business strategy.

Having this classification is very important because strategic departments of the organizations and senior managers could track continually the performance of the project portfolio of strategic projects. Usually organizations that track strategic projects favor the linking of project management and business strategy as it is shown in the Exhibit 2.

Linking Project Management with Business																			
PortFolio	Program	Project	Focus	Operational Efficiency (20%)	Operational Production & Estability (20%)	Growth (10%)	Customer Intimacy (5%)	Diferentiation (10%)	Law Compliance (15%)	Sustainable Development (20%)	Resour ces (hh)	Budget OPEX (M\$)	Budget CAPEX (M\$)	Total Budget (M\$)	ROI	Payment Period	Risk	NPV (M\$)	
Capital Projects	Expanding Business	Project 1	Strategic			80					5,000	100	50	150	50%	5	Alto	80	
		Project 2				120					2,000	200	100	300	60%	6	Medio	120	
		Project 3				60					3,000	150	300	450	70%	4	Bajo	60	
		Project 4				130	20				1,000	100	200	300	20%	5	Medio	150	
		Project 5				20	90				1,000	100	200	300	20%	5	Alto	110	
	No Program	Project 6	Subsistence							100		500	100	200	300	30%	4	Medio	100
		Project 7	Tactical		80	20						1,200	100	200	300	30%	4	Medio	100
		Project 8	Strategic						100			2,500	100	200	300	30%	4	Medio	100
		Project 9	Tactical		100							1,500	100	200	300	30%	4	Medio	100
		Project 10	Tactical		100							1,000	100	200	300	30%	4	Medio	100

Exhibit 2 – Linking Project Management with Business

It is very important to conclude that the definition of a well suited strategy, comprised by most of the mentioned categories, represent **competitive advantage**. Today, in this turbulent time, it is imperative to invest in strategy and its linking with the project portfolio, doing this will raise organizations at the highest competitive levels.

A Case Study of a Mining Company with the Application of this Model

A case study will be presented during the congress.

Lessons Learned and Conclusions

Project managers have to change their focus from getting projects on time, cost, and quality to achieving business goals, however, this does not mean that time, cost, and quality are not considered as criteria for project success but that business results take more relevance than the restrictions of time, cost, and quality.

Rethink the strategy, it is not a plan, it is everything about business success.

Linking strategic and project management is a two-way process, strategy influences the project portfolio and the execution of the project portfolio influences the strategy.

There is no unique model to manage strategy—there are dozens. However, we can use any of them and adapt it to projects that satisfy the strategic objectives and to represent the link between project management and strategy.

There is an opportunity to create a strategic maturity model that be integrated to *OPM3*[®] in order to encourage organization s to link their strategy with project management. Invest in strategy and its linking with the project portfolio.

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