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# 1 PROJECT MANAGEMENT IS A STRATEGIC STRENGTH

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The dawn of the twenty-first century is characterized by pervasive change throughout the global economy. The ability to rapidly adapt to change and, more importantly, *drive* that change, has become a survival factor for firms across the economic spectrum.

This chapter describes how the project management discipline has evolved to be a strategic capability in firms of every size as we all adapt to the increasing pace of change. The content of this chapter is broken into two parts: The first part provides a general overview of the discipline of project management; the second part demonstrates why project management is a strategic capability and what firms are doing to leverage project management techniques.

## **THE PROJECT MANAGEMENT DISCIPLINE**

The basis of understanding project management is the understanding of *project*. A project is defined as “work that is temporary and produces a unique product or service.” Temporary work has a beginning and an end. When the work is finished, the team disbands or moves on to new projects. Producing unique products or services is why projects are often referred to as *one-time shots*.

It is often easiest to understand what projects are by also stating what they are not. If projects are temporary and unique, ongoing operations are neither; for example:

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- Developing a more accurate weather forecasting software model is a project; using the model to forecast the weather week after week is an operation.
- Implementing a software package to process loan applications at a credit union is a project; processing the loan applications becomes an ongoing operation.
- Installing robots to paint automobile bodies at an assembly plant is a project; painting cars is an operation.
- Writing a professional development class on risk management is a project; presenting the class repeatedly to many customers is an ongoing operation.

### THE NEED FOR A DIFFERENT DISCIPLINE

The definition of a project gives us clues as to why projects can be so troublesome—if we get only one chance to do it right, how can we ever hope to succeed? Refer to Exhibit 1.1 and consider the challenges inherent in managing one-time shots:

- *Staffing.* As the project has a start and a finish, so does the project team. The more unique the project is to your firm, the greater the difficulty in assembling a team with the appropriate skill mix. Compound that problem by trying to run many projects simultaneously, all with different durations and different team size requirements. You may have the need for 500 people to work on projects this quarter but need only half that many next quarter. Where do the people come from? Where do they go? Balancing the projects undertaken against the staff and resources available is a critical organizational capability.
- *Budgeting.* Most budget cycles are set to reflect accounting cycles dictated by the Internal Revenue Service and other government agencies. However, projects are driven by other factors and often cannot wait for the next budgeting cycle. If you are beginning your fiscal year and find

#### EXHIBIT 1.1 Projects versus operations



All of our work falls somewhere on the spectrum between repetitive and unique. Projects are unique, and the more unique they are the more difficult they are to manage. At the extreme end of the scale, research projects attempt to manage discovery. At the other extreme, work that is almost completely repetitive has been automated and is performed by computers or robots.

out your nearest competitor is gearing up to release an improved product, you don't want to wait until next year's budgeting process to find money to launch your own product development effort.

- *Authority.* When "politics" gets in the way of project progress, we usually mean that the authority structures set up to manage the ongoing operation aren't serving the project. That's not surprising, given that projects often require cooperation and participation across the normal functional boundaries within the firm. The unique nature of projects means that a single vertical line of authority is more the exception than the norm on projects.
- *Estimating.* As new projects are considered, deadlines and budgets are estimated to set financial goals such as return on investment. However, given that estimating requires forecasting the future, these cost and schedule goals are often built more on assumptions than facts. The project team is being asked to create something unique, that means it will solve new problems and encounter unexpected obstacles. Even projects that are similar to previous efforts can be difficult to forecast because most projects contain so many variables.
- *Communication.* If people are the engine of accomplishing work, communication is the heart of true productivity. It is easy to understand why "constant effective communication among everyone involved in the project" is considered a project success factor.<sup>1</sup> Projects that require cooperative, concerted effort from temporary, cross-functional project teams must re-create basic communication channels on every project.

As challenging as it can be to manage a project, the problem is magnified when a firm or department has tens or even hundreds of projects. Each project has its own risks, stakeholders, communication channels, and resource requirements. The project management discipline has evolved to address the challenges of individual projects and continues to evolve to address the problems faced by project-based organizations.

## A BRIEF HISTORY OF PROJECT MANAGEMENT

Although human history is marked by projects—from the Roman aqueducts to the American transcontinental railroad—project management was not developed as a separate discipline until the mid-twentieth century. Beginning with the nuclear weapons programs after World War II, specific techniques emerged for planning and managing their enormous budgets and workforce. The most well-known, PERT (Program Evaluation and Review Technique) and CPM (Critical Path Method), have become synonymous for project scheduling techniques. (Both PERT and CPM were much more than scheduling techniques, but the scheduling graphics they produced, called *PERT charts* and *Critical Path*

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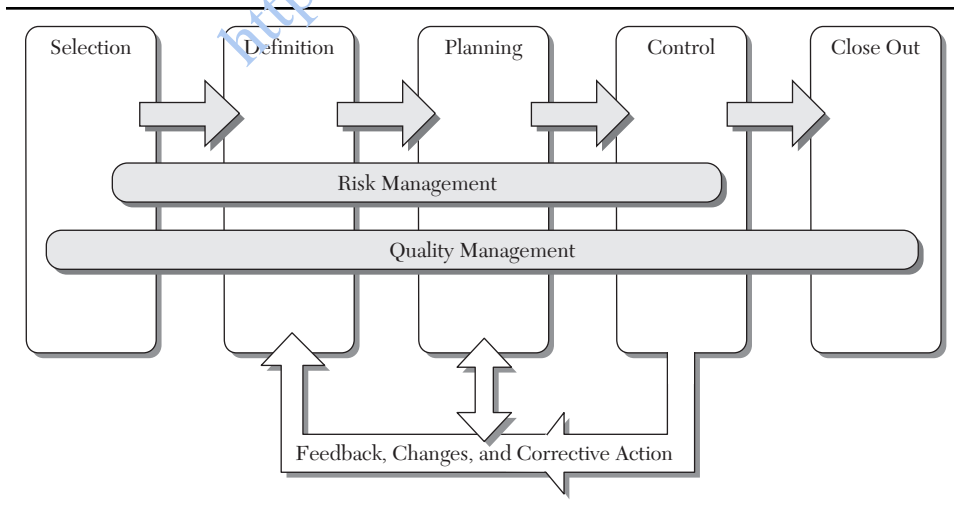
*charts*, were so distinctive that many people have mistakenly equated project management with PERT and Critical Path charts.)

PERT and CPM evolved through the 1950s and 1960s to become commonplace on major space and defense programs, but they saw limited use beyond those industries. From the mid-1960s through the mid-1980s, project management methods grew and matured but still found a relatively limited audience. Even at universities, project management was usually taught on a limited basis in some engineering schools. However, in the 1990s, interest in project management soared because of a convergence of several factors. Computer technology was making a huge difference in the way we worked. More powerful computers and software also made it easier to use the classic project management techniques. Project management methods today are not that much changed from a generation ago, but they have become commonly accepted in every industry.

### FUNCTIONS OF PROJECT MANAGEMENT

The project management discipline covers a broad spectrum of concepts, tools, and techniques designed to enable the best possible project selection and execution. Exhibit 1.2 breaks down the discipline of project management into the major functions an organization must perform to take a project from concept to delivery.

**EXHIBIT 1.2 Project management functions**



## Selection

Pursuing the correct projects is easily as important as the effectiveness with which the project is carried out. Project selection contains the following activities:

- *Create a business case for the project.* The business case describes the project's purpose and benefits in relation to the goals of the firm; identifies financial targets for the project such as return on investment, internal rate of return, and payback period; and estimates resources in cost and personnel. It serves as a basis for documenting commitment to the project.
- *Align the project's goals in the organization.* Aligning the project tests project goals against strategic goals for the firm and other involved stakeholders. For instance, if multiple departments must cooperate to accomplish a project, understand how the project will help the departments meet their goals.
- *Prioritize the project relative to other projects and ongoing operations.* Every firm has limited time, people, and money to spend on projects. Therefore, each new project must be weighed against existing commitments and available resources.

It is important to recognize that the project manager responsible for delivering the project is rarely involved in any of the selection activities. Operational or product managers typically develop the business case and test the project for goal alignment. Executives prioritize the project. That is a risk for the project, the project manager, and the organization, which is why the risk management function overlaps project selection.

## Definition

After a project is selected, a project manager is assigned and goes to work building the foundation for the project's success. Project definition activities include the following:

- *Identify all stakeholders on the project and document their goals and involvement.* Stakeholders include customers, vendors, core team members, and supporting management in the firm.
- *Develop a relationship with the project sponsor.* A sponsor is an executive in the organization who is responsible for the success of the project. While the project manager performs the day-to-day oversight of the project, the sponsor provides the executive authority necessary to overcome organizational obstacles.
- *Record the goals and constraints of the project using a statement of work or similar document.* Goals and constraints can include the scope, budget,

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key schedule milestones, authority structure for the project, measures of success, communication standards, and other facts or assumptions that will affect the project. This document is then signed by the project stakeholders, establishing a baseline agreement.

Project definition is the foundation for success because it establishes a common understanding of the goals and constraints of the project. Without it, the project team is shooting at a moving target.

### Planning

With a clear goal in place, documented by the statement of work and business case, the project manager builds the action plan that describes the who, what, when, where, and how of accomplishing the project. Planning typically includes the following activities:

- *Develop a detailed description of the work on the project using a work breakdown structure (WBS).* The WBS breaks the overall work of the project into small, individual tasks, much the same way an organization chart for a company breaks down authority.
- *Analyze the sequence of the tasks.* For all the tasks on the WBS, understand which tasks have to be performed before others. The classic diagram for this analysis is called a *network diagram*. (Both PERT and Critical Path charts are forms of network diagrams.)
- *Estimate the tasks to determine the required skills, effort, equipment, and materials.* Even though the business case provides a high-level cost estimate, it is necessary to have detailed estimates to assign resources to accomplish tasks.
- *Use the detailed information derived from the work breakdown structure, network diagram, and task estimating to create “bottom-up” estimates for the project.* In other words, add up the cost, and schedule estimates of the individual tasks to determine the cost and duration of the entire project.
- *Establish detailed project schedules documenting specific start and finish dates, responsibilities, and completion criteria for each task.*
- *Determine the number of people on the team and what skills are necessary.* For part-time team members, identify the dates their skills and effort are required. Staffing the project team often requires negotiating with other project managers or functional managers.
- *Prepare contracts for vendors who are participating in the project.*

### Control

The control function can be likened to driving a car: The driver monitors the vehicle and the environment, intentionally steers toward the destination, and

takes corrective action as obstacles or unexpected events arise. For project managers, driving the project includes:

- *Monitor the progress of the project against the plan.* Projects are typically too large for subjective assessments of progress to be valuable. Instead, we need specific measurements, such as the percent of the budget consumed to date. The detailed nature of the project plan allows for detailed measurements of cost and schedule progress. We can see which tasks are late, which are early, and which are consuming more or less effort than was estimated.
- *Communicate with the project team and stakeholders.* Because life and projects rarely go as planned, continuous, purposeful communication is necessary to keep all project participants informed and working together in harmony. Stakeholder communication includes formal reporting to customers and management.
- *Form the project team and attend to its health.* Forming the team means assembling a disparate group of people into a team with a shared goal. Consciously build and maintain trusting relationships within the team. Monitor the quality of team decision making to ensure appropriate participation and productivity.
- *Maintain the cost-schedule-quality equilibrium.* During project selection and definition, the stakeholders agreed on what to create, how much to spend, and when it had to be delivered. The greatest threat to that balance comes from adding scope (additional work) during the project. Any changes to the project that affect the cost, schedule, or product must be approved by the project manager, customer, and other affected stakeholders.
- *Take corrective action to keep the project on track.*

## **Risk Management**

Because every project is unique, every project includes a high degree of uncertainty. Risk management is the systematic practice of identifying and reducing the threats that exist in the project and the project's environment. Planning for risk begins during the development of the business case and continues through definition and planning as each successive function provides a more detailed view of the project. During the control function, risk management activities mirror the other control activities as we monitor and communicate each risk and, if necessary, take action to respond to the risk.

## **Quality Management**

Delivering the correct product or service, which performs as the customer expects, is no accident. Practices developed and established within the quality discipline (as defined by Deming, Crosby, et al.) can be applied to the project

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management discipline. This integration begins as the project is conceived and carries forward until the outcome of the project is created and is accepted by the customer. These practices focus on clearly understanding what the customer wants and consciously planning to deliver it, including methods for ensuring the product will be correctly built.

### Close Out

Project completion goes beyond delivery of the product. In addition to ensuring customer acceptance, the project manager will disband the project team and dismantle the project infrastructure. A significant goal of project close out is capturing the lessons of the project so that they can be passed on to the organization.

As demonstrated in Exhibit 1.2, the functions of definition, planning, and control are ongoing throughout the project. It is important to recognize that no matter how well a project is defined or planned, during the course of the project, changes can occur that require the scope, cost, schedule, or some other constraint to be modified. When that happens, the project manager will revisit the activities included in project definition and planning.

### PROJECT SUCCESS: THE TRIPLE CONSTRAINT

The functions of project management provide for gaining agreement on what should be built, the cost or price of the product, and when it must be delivered. In project management jargon, we term this the cost-schedule-quality equilibrium or *triple constraint*. These three variables define the overall goals of a project; therefore, any project that is “on time, on budget, high quality” is declared a success. The difficulty, however, exists in their relationship to one another. The term *equilibrium* sums up the challenge: The quality of the product we create depends on the time and money we are willing to spend. After a balance between these variables is struck, a change to one will affect the other two.

Achieving the proper balance of cost, schedule, and quality is beyond the control of the project manager alone. All stakeholders, particularly those involved in project selection, influence the choices and trade-offs that make up the triple constraint.

### PROJECT MANAGERS MUST BE LEADERS

The discipline of project management can lead us astray. With all its structured methods and specialized reports, it can create the illusion that if a person learns the discipline, he or she will surely lead successful projects. Projects are much too messy to be ruled merely by organized documentation. The

methods and mechanics of project management are essential, but they are not sufficient.

Forming a team to build something from nothing requires a range of leadership skills and characteristics. Effective project managers are able to:

- *Communicate a vision.* Projects start with problems and finish with products. They begin with fuzzy ideas and result in tangible services. To lead all the stakeholders on this journey requires the ability to communicate the destination and the path to achieve it.
- *Motivate and inspire the team.* Every project—from the daunting to the mundane—benefits from a motivated team.
- *Build trust within the team.* A fundamental component of a high-performance team is the trust that enables team members to rely on one another both for support and appropriate criticism. Project managers set the tone that fosters open communication and honesty, which fosters trust and strong relationships.
- *Influence stakeholders beyond the project team.* Customers, vendors, other projects, and senior management all contribute to the project but do not report directly to the project manager. Gaining cooperation outside official authority is essential for project managers.
- *Make abstract things concrete.* Transforming a concept to reality requires the ability to sift through assumptions and generalities to take meaningful results-oriented action.
- *Demonstrate persistence and determination.* Not every project is tough, but few are easy. Projects are full of unexpected problems, which require a leader who will not give up easily.
- *Manage and resolve conflict.* Conflict is a natural part of change. As people struggle to invent new products and processes, the project team must not run from conflict; rather it must work through it to reach the best decisions while respecting and maintaining team relationships.
- *Know when to make a decision.* Balance the need for more information, more participation, and the urgency of the situation.
- *Maintain the big picture perspective while organizing details.* Project managers are responsible for achieving the overall goals by directing the details.

This list could go on. The nature of projects makes them unruly and prone to chaos. It takes a firm, disciplined hand at the wheel to keep the project and all the stakeholders moving in a purposeful, concerted direction toward success.

The discipline or “science” of project management makes up an essential tool set. The “art” of leadership lifts the human component of the project to its potential. Neither the art nor the science is sufficient on its own. Together, they form a powerful force that overcomes great adversity and enables us to accomplish any goal.

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### PROJECT MANAGEMENT IS A GROWTH INDUSTRY

Projects are temporary and produce unique products. Both of these characteristics make managing projects not just difficult, but different from managing ongoing operations. The project management discipline contains methods, tools, and concepts that were specifically developed to ensure that each project meets cost, schedule, and quality goals.

The use of project management methods has grown tremendously over the past decade, and all indications are that the trend will continue. Computer-based project management tools continue to add powerful features that make it more practical to apply the classic techniques. Growing demand for project managers has led to explosive growth in the number of universities offering degrees or certification in project management. However, these factors are merely proof that this discipline is becoming a necessary skill in most organizations. The root cause of the growing use of project management is the increasing rate of change in our economy and our places of work.

### PROJECT MANAGEMENT AS A STRATEGIC STRENGTH

What is the single largest factor driving the increased use of project management methods? The ever-present, ever-increasing pace of change present in our world today. Whether you work in health care, banking, professional services, manufacturing, aerospace, computer hardware and software, telecommunications, or entertainment, you feel the changes all around you. You can be employed by a government agency, nonprofit firm, small business, or Fortune 500 corporation, and you will experience the constant change that comes from rapidly growing computing power and global competition. The number and variety of changes surrounding us have many sources, and each change spawns others, creating an ever-growing web of change.

This climate of ever-faster change has created new challenges and new opportunities. All firms are challenged to keep up with the pace or risk being left behind. The opportunities for the quick and agile are exemplified by technology companies that started from scratch and made their founders billionaires within a decade or less. However, the opportunities are not limited to wireless telecommunications, computer networking, or software businesses. Starbucks, the Seattle-based coffee retailer, has grown from a few friendly shops in Seattle to a worldwide chain in less than ten years.

Business gurus and corporate chieftains noticed this shift in the late twentieth century:

- Tom Peters characterized the challenge in the title of his 1987 book, *Thriving on Chaos*.
- Andy Grove, CEO of Intel, titled his 1996 book, *Only the Paranoid Survive*.

- Peter Senge described the “learning organization” as the new paradigm for corporate survival in his landmark book *The Fifth Discipline*, published in 1990. He quotes an executive as saying, “The ability to learn faster than your competitors may be the only sustainable competitive advantage.”<sup>2</sup>
- Jack Welch, of GE, perhaps the most respected CEO of the 1990s, observed in 1994, “I’m in my 14th year of running a global company, and I’ve been wrong about a lot of things in those 14 years; but one prediction I’ve made at least 14 times that has always come true is that things are going to get tougher; the shakeouts more brutal and the pace of change more rapid.”<sup>3</sup>

As change becomes a constant, the project management discipline moves to the forefront of organizational capability *because change is accomplished through projects*. The ability to properly select and effectively execute projects is as integrally tied to the success of a firm as its choice of products and markets.

## A NEW STRATEGIC STRENGTH

Effective execution of projects has always been important. It has never been acceptable to be over budget, behind schedule, or delivering the wrong product. In the past, however, project management has been seen as a *tactical* strength. In the words of Steve Weidner, president of Program Navigators, executives’ attitudes toward project management was “I hire people, who hire people, who hire people to manage projects.” Because projects were carried out far from the strategic planning sessions in the executive offices, senior management could ignore the details and discipline of project management.

Has anything really changed? Are CIOs and CFOs paying attention to project schedules? Can the ability to manage projects actually become a competitive advantage?

Before we assess whether project management is a strategic strength for your firm, we must first define the term itself. *Strategic strength* refers to a competitive edge that influences the strategy of the firm. At best, it is such a dominant strength that it keeps competitors from entering the marketplace, shaking their heads, and exclaiming “I can’t compete with that!”

Consider some strategic strengths of the past:

- Economies of scale allowed manufacturers to produce more products at a cheaper rate. Henry Ford pioneered this idea, and it was refined throughout the twentieth century. By 2000, this strength was cited by banks and entertainment companies, such as Bank of America and Disney, as they rapidly acquired or merged with their competitors.
- Large, established distribution networks provide channels for delivering products to the customer. U.S. automakers have a much larger share of rural U.S. markets because their dealer network is stronger than that of

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foreign competitors. Coca-Cola and McDonalds also enjoy worldwide distribution networks.

- Specialized skills and processes enable a firm to produce better products less expensively. Sony has proven repeatedly that it is the master of consumer technology. Sony's products often work better and are more user-friendly even though they are cost competitive.

Can project management capability be as important to an organization as these strategic strengths have been in the past? The determining factor is how dependent the firm is on successful projects.

### TACTICAL OR STRATEGIC?

Project management is not a strategic strength for every firm, because not every firm is project-based. For example, it would be difficult to make a case for most retail stores to focus on project management as a strategic competency. The following factors help you assess the relative importance of projects to your firm and your career. The more that these factors are true for an organization, the more project management will be a strategic competency. Realize that these factors may be assessed for the entire enterprise or for a specific division or department. The statements are organized so that the first five assess the importance of projects to your career and the last six apply to your firm.

Respond to the following statements as to strategic importance of project management skills to your career:

- *Project management is an important tactical skill for me.* If you manage projects, project management is an important tactical skill because it helps you perform your current job better. The more projects you manage and the larger the projects are, the more important this skill becomes.
- *My organization has a high proportion of budget or revenue attributed to projects.* If your firm derives a significant portion of revenue from project-based work, your ability to manage projects well is a direct reflection of your value to your firm. This is also true if your firm has a high proportion of its budget allocated to projects because you will be instrumental in creating the most value for the money spent. If you work for a consulting firm or general contractor whose primary source of revenue is delivering project-based services, this factor applies to you. However, you could also agree highly with this statement if you work in a project-based support group in a nonproject-based company. For instance, most information technology (IT) departments have a high proportion of their budgets devoted to projects, even though the company as a whole might be a manufacturer or a retail chain.
- *My profession is driven by projects.* This factor applies to you if most people in your profession or with your skill set work a large proportion of

their time on projects. For instance, engineers tend to spend much of their time on projects, so any engineer will find his or her career opportunities expand as he or she masters project management skills. Because fewer professionals are spending their entire careers with a single employer, this factor has an even greater impact on your career.

- *I have many projects under my span of control.* Ironically, strong agreement with this statement has often been associated with people who don't understand project management principles. They prefer "to leave the details to the people managing the projects." However, if you have many projects that you are responsible for, your ability to monitor and mentor multiple project managers will improve if you use project management techniques.
- *I have career goals to significantly increase my responsibilities.* Whether you work in a project-based organization or not, your ability to manage a new initiative, pioneer a new product, or solve a unique problem will make you stand out among your peers. The career ladders are packed with people who are competent at the normal requirements of your firm; you will distinguish yourself because you can handle what isn't normal.

As these factors are considered, it may be useful to distinguish between the overall purpose of a company or agency and the purpose of a department. As noted in the previous questions, a support department can be very project-driven while the business as a whole is not. It is useful to respond to these statements from both perspectives.

Respond to these statements about project management as a strategic competency for your firm:

- *Project management is an important tactical skill for my firm.* If there are projects in the firm, it is at least a tactical skill because it is always important to execute tasks efficiently.
- *My firm has a high proportion of budget/revenue attributed to projects.* The connection here is obvious. If the business derives a large proportion of revenue from project-related work, project management capability will make the firm more competitive; it will be able to provide lower cost, higher quality products to customers. Similarly, when a significant amount of the budget is spent on projects, strong project management gives a firm more value for the money spent.
- *My industry is driven by projects.* When your industry is driven by projects, your competitors are also engaged in managing projects. Who will be faster to market? Who will have the better product or the more competitive cost? A number of factors cause an industry to be driven by projects:—If your firm and your competitors deliver project-based services, your industry is driven by projects. A wide variety of service businesses, from construction to accounting to information technology, falls into this category.

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- Shelf life and complexity of your products drive projects. In the software product industry (e.g., Microsoft, Novell, Adobe, Oracle), the products are complex and difficult to create (though simple to manufacture), and they have a relatively short shelf life with significant new releases coming out every 18 to 30 months. Therefore, these firms are constantly engaged in product-development projects.
- The complexity and uniqueness of your products drive projects. Aerospace and pharmaceutical companies have these factors in common. Military aircraft and cancer-fighting drugs are tremendously expensive and take years to develop. In these industries, shaving 10 percent off a budget can generate millions of dollars in savings.
- If you are in a growth industry, it is driven by projects, because at the least you are rapidly adding capacity. However, growth industries are typically characterized by innovation as well—meaning you will need to change rapidly to stay in the game.
- Industries associated with technology are forced to change rapidly and constantly as they either produce new technology or use it to leverage other competitive strengths.
- *My firm has many independent projects.* Independent projects—where the products or customers are unrelated—magnify the challenges of managing projects. Compare managing a wide variety of unrelated projects to juggling a basketball, an apple, a golf shoe, and a flaming torch. Juggling is difficult enough, but the difference in weight, size, and shape of all these items compounds the difficulty. So, too, with a variety of projects, all of which ultimately share the same set of corporate or department resources.
- *My firm has significant growth goals.* Growth comes through change, and change is accomplished by projects. Too often, a company with a hot product is choked by its inability to grow its infrastructure to support the demand. When that happens, the revenues grow but the costs grow faster, cutting the profits and squeezing cash flow.
- *My firm has important projects whose failure will cripple the firm.* If you have strategic projects, the ability to carry them out is a strategic strength.

Many of these factors probably apply to you. For firms with many of these factors, project management is more than a tactical strength—it is a capability that can fundamentally change the organization's ability to compete.

### THE STRATEGIC ADVANTAGE

The factors outlined previously show that projects play a large role in an organization. However, just because a firm has many projects, and many important projects, how does that make project management a strategic strength? There

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are two fundamental answers to that question: outperforming your competition and reducing risk.

In athletic competition, a coach often emphasizes the fundamentals of the game during all practices because of the obvious reality that no game plan can succeed without mastery of the fundamentals. Projects in every endeavor share this emphasis on fundamentals. No matter how good our strategy, poor execution causes us to fail, which is a tactical issue. It becomes a strategic strength when the consistency and speed of our execution enables us to change our strategy. The following examples demonstrate how project management—once considered mere “blocking and tackling”—can change the game plan:

- Through the use of good project management and process improvement methods, a financial services firm was able to slash its product development cycle from 14 months to 8 months. Now this firm can deliver a new product in about 60 percent of the time it takes a competitor. That provides a cost advantage (therefore, a profit advantage), but the strategic advantage is the ability to always be first to market when new opportunities appear.
- There is perhaps no better example of the strategic importance of speed than in computer hardware and software development companies. *Moore's Law* has postulated that computing power doubles every 18 months. So far, it is holding true. The implication for firms that develop hardware is that they need to constantly be designing and developing new products, often with two or more generations of products in development at the same time. Software development companies are in the same situation. They are constantly working on the next release of their product to take advantage of new processing power and memory capabilities, as well as responding to shifts in the marketplace. In this never-ending product development race, the firm that can consistently deliver the best product to the market window has the advantage. When firms fail to maintain this pace, they not only fall behind, they are out of the race. Project management is one of the fundamental abilities that enable a firm to consistently deliver a better product faster and at less cost.
- One of the factors fueling the economic expansion of the 1990s was improved productivity. New technology enabled firms to accomplish more with fewer people. The firms who have mastered project management quickly take advantage of new cost-saving ideas without throwing their operations into an uproar. On the other hand, firms that struggle with every new project often spend far more implementing the new idea than they will ever realize from the cost savings. For instance, companies that have installed so-called enterprise resource planning systems (ERP systems such as PeopleSoft, Baan, SAP, and many others) reduce information system costs and, importantly, gain greater understanding of their operations through more integrated information management. ERP systems enable these firms to fine-tune operations and produce significant cost savings.

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Implementing these productivity tools and processes is often complex; therefore, good project management is essential. Too many firms have spent millions of dollars on the software and services required to implement these ERP systems yet have nothing to show for it. They are mired in the complexity of adjusting their way of doing business and matching it to the new computer system. It is a complete lose-lose situation, wasting money and failing to gain the competitive advantages that an ERP system can provide.

- Hospitals and health-care networks also face the need to morph rapidly for survival. They are refining and updating internal business practices to rein in costs and improve service. Organizations that have been successful with these reengineering initiatives have become the new leaders—while those that fail have had to merge with or be taken over by competitors.

These examples demonstrate how effective project execution allows a firm to adopt more aggressive growth goals. When every project costs less and is consistently performed faster, we can take on more new initiatives—whether they are for efficiency, customer satisfaction, or new products and markets.

Outperforming the competition is one reason project management is a strategic competency. Risk management is the other reason.

Every new endeavor—from ERP system implementation to new product development—is filled with uncertainty, both good (opportunities) and bad (risks). Often, the greater the opportunity is, the greater the risk. The uncertainty is why we tend to get nervous while working on projects. Then add to the problem that most projects are initiated based on more assumptions than facts, and the project-based organization begins to look like a high-stakes gamble. However, avoiding all projects to reduce risks also means avoiding all opportunities. The answer is being able to engage in projects and to better manage the associated uncertainty—to play the game but improve our odds of winning.

The gambling analogy is apt. Casinos with blackjack tables know the odds are in favor of the house. But those gamblers who have learned to “count cards”—by some method, remember the cards that have already been dealt—tip the odds in their favor. They don’t win every hand, but they win more than they lose—enough so that when a card counter is recognized, the casino may not allow him or her to play.

Project management techniques are methods for reducing uncertainty and, therefore, improving our odds of success. Whether you manage a cost center or a profit center, every time you take on a project, you take on a risk. The more projects you have, the more the risk can be magnified or reduced, depending on your ability to plan and manage projects. Project management techniques reduce risk in three fundamental ways:

1. *Forecasting the future*: When you can see the future, you improve your odds dramatically. That’s why good sailors watch the weather reports so carefully. Project management techniques do not provide a clear picture

of the future. Rather, they are like weather forecasting techniques; they leverage past experience to understand the present and provide a range of probable outcomes for the future.

2. *Early problem recognition:* Simply put, small problems are easier to solve than big ones. The structured tools of project management enable early problem recognition and resolution. That includes canceling or dramatically redirecting projects that have gone off track or no longer make sense. The difference is that these problem projects are found earlier, after spending less corporate resources, therefore reducing the loss.
3. *Improved communication:* There is no more common cause of project failure than communication breakdowns. Whether the misunderstanding is over what, why, or how to build the product, communication failures lead to wasted effort, time, and money. Every facet of project management improves communication, from techniques to gain early stakeholder cooperation, to scope management and cost control methods. The discipline provides a structured, systematic way to know and agree on every what, why, when, how, where, and who.

Reduced risk makes project management a strategic competency because it alters the opportunity-versus-risk equation. It changes the long-standing financial rule that high returns require high risk. Because of that, it allows firms to play in high-stakes games and win more consistently.

In summary, project management can be a strategic strength because it makes firms stronger competitors. It produces consistently better project performance, more accurate cost and schedule forecasts, and early problem recognition. That, in turn, improves the ability to manage the project portfolio—to select the projects with the greatest return and cancel those that are not living up to expectations. A strategic strength is an ability that provides a competitive advantage. In this world of rapid change, it is increasingly difficult to sustain operational advantages, making it all the more important to master the discipline of change.

## STRATEGIC COMPETENCIES

Firms that have recognized project management as a strategic competency are responding by adding three primary components: project portfolio management, consistency in project management tools and techniques, and a project management office.

Project portfolio management refers to the methods used to select and oversee projects. The term *portfolio management* conjures up the appropriate analogy to managing an investment portfolio because each project is an investment of the firm's limited resources. The project portfolio management capability typically has four components:

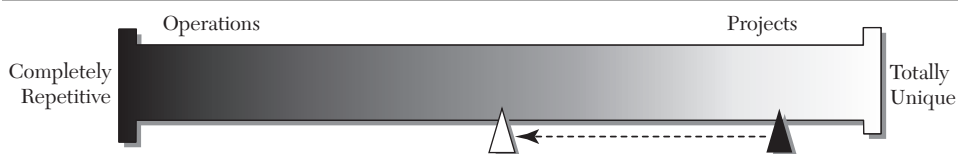
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1. *Project selection criteria:* Consistent criteria are used to accept projects and to set performance measurements. The first sign the selection criteria are working is that some proposed projects are rejected.
2. *Goal alignment:* The people charged with project portfolio oversight clearly understand the overall goals of the firm and ensure that all projects support these goals.
3. *Resource planning:* Projects are prioritized and chosen with the knowledge that the firm has limited people and budgets available. Most firms that lack this component find they are working on far more projects than they can accomplish—therefore, they get only partial completion on all but a few projects.
4. *Ongoing oversight:* Given that projects are unique, changes in budgets, schedules, and priority are to be expected. Regularly scheduled progress reports allow the portfolio management team to spot run-away projects early, cancel projects that no longer meet selection criteria, or divert additional resources to projects that increase in priority.

Consistent project management tools and techniques are the basis for improving overall project performance. Early in the chapter, we established that many of the challenges of managing projects arise from the fact that projects are, to some degree, unique. Exhibit 1.3 illustrates the goal of using consistent project management practices on all projects in a firm—that consistent project management practices leverage what is similar about projects, thereby making them less unique. This, in turn, should reduce some of the challenges inherent in managing unique work. Exhibit 1.4 lists potential project management tools that could be standardized in an organization. Firms seek several benefits from these consistent tools and methods:

- A common vocabulary exists across all projects. Mistakes caused by miscommunication are reduced as all project participants use common terms to discuss project issues.
- The ability to exchange project data, particularly to combine data from multiple subprojects to gain an overall “super project” view.

### EXHIBIT 1.3 Project management maturity



Consistent project management practices—from project selection through close-out—leverage the similarities between projects in order to make them less unique and therefore, more manageable.

**EXHIBIT 1.4 Potential standard deliverables by project phase****Define**

- Charter
- Statement of work
- Responsibility matrix
- Communication plan
- Order-of-magnitude estimating guidelines

**Plan**

- Risk profiles
- Risk log
- Risk management plan
- Work breakdown structure
- Guidelines for task size
- Network diagram (PERT)
- Gantt chart
- Cost-estimating worksheet

**Execute**

- Status reports for different audiences
- Cost and schedule tracking charts
- Meeting agendas, including open task reports
- Cost-tracking guidelines
- Issues log
- Change request form
- Change log

**Close Out**

- Postproject review agenda and guidelines
- Postproject review report
- Client satisfaction assessment
- Project history file guidelines
- Project summary report

- Consistent format improves communication with management and customers.
- The common methods and decision points form the firm's project management process. After a baseline process is established, it becomes possible to improve the common process based on the successes and failures encountered on individual projects.
- Common practices form the basis for building project management skills.

A project management office (PMO) is some organizational unit that is responsible for the project management capabilities of the firm. In practice, this office has been called a variety of names and has a range of responsibilities, which are described in Exhibit 1.5. Whatever the overall responsibilities of the PMO, the fundamental reason a PMO must exist is that it gives some person or

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**EXHIBIT 1.5 Project office forms and responsibilities**

Responsibility	Center of Excellence	Project Support Office	Project Management Office	Program Management Office	Accountable Project Office
Maintain standards	●	●	●	●	●
Organize training	○	○	○	○	○
Mentoring and consulting support	○	●	●	●	●
Schedule and budget analysis		●	●	●	●
Enterprise project information		●	●	●	●
Make project management decisions				●	●
Supervise project managers			○		●
Meeting project objectives			○	○	●
Career growth for project managers	○	○	●	○	●
Supply project managers to the organization			○		●
Participate in project portfolio management	○	○	○	●	●

*Legend:* ● = Full responsibility  
 ○ = Partial responsibility  
 Blank = No responsibility

group ownership of the project management process. Without a PMO, any efforts to create consistent project management practices will be viewed as optional and will soon become out of date. It is almost impossible to think of a firm having a portfolio management capability in place without some form of PMO to create and enforce the necessary project initiation and reporting standards.

How does a department or entire firm implement these capabilities? That is the subject of this entire book. The chapters that follow detail both the discipline of project management and the path to project management maturity.

### SUMMARY OF PROJECT MANAGEMENT AS A STRATEGIC STRENGTH

The opening of the twenty-first century is characterized by an increasing pace of change, and change is accomplished through projects. Whether you work in government, nonprofit, or large or small business, your firm must adapt; it must either drive change or, at a minimum, keep up with your peers.

The increasing pace of change causes greater uncertainty for all organizations. The discipline of project management can reduce the risks of uncertainty. This discipline uses proven techniques to select, plan, and execute projects to reduce the cost and schedule required and to improve the quality of the result.

## Project Management Is a Strategic Strength 25

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As firms are increasingly driven by projects, the ability to manage projects consistently and competently is changing from a tactical competency to a strategic competency. Firms that recognize project management as a strategic capability—an ability that gives them a competitive advantage—are viewing project management as a process that can be defined and consistently improved. These firms are focusing on three components:

1. A rigorous portfolio management process to correctly choose which projects to invest in and to oversee existing projects.
2. Consistent project management methods so that each project is using reliable techniques for planning and managing.
3. A project management office responsible for maintaining and improving the portfolio management process and project management methods.

This book describes the proven discipline of project management and how project-based organizations can use that discipline to thrive.

### NOTES

1. Eric Verzuh, *The Fast Forward MBA in Project Management* (New York: Wiley, 1999), p. 8.
2. Peter Senge, *The Fifth Discipline: The Art and Practice of the Learning Organization* (New York: Doubleday, 1990), p. 4.
3. Janet Lowe, *Jack Welch Speaks: Wisdom from the World's Greatest Business Leader* (New York: Wiley, 1998), p. 98.