

# The Need for Strategic Planning for Project Management

## INTRODUCTION

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For more than 40 years, American companies have been using the principles of project management to get work accomplished. Yet, for more than 30 of these years, very few attempts were made to recognize project management as a core competency for the company. There were three reasons for this resistance to project management. First, project management was viewed as simply a scheduling tool for the workers. Second, since this scheduling tool was thought to belong at the worker level, executives saw no reason to look more closely at project management, and thus failed to recognize the true benefits it could bring. Third, executives were fearful that project management, if viewed as a core competency, would require them to decentralize authority, to delegate decision-making to the project managers, and thus to diminish the executives' power and authority base.

## MISCONCEPTIONS

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As the 1990s approached, project management began to mature in virtually all types of organizations, including those firms that were project-driven, those that were non-project-driven, and hybrids. Knowledge concerning the benefits project management offered now permeated all levels of management. Project management came to be recognized as a process that would increase shareholder value.

This new knowledge on the benefits of project management allowed us to

dispel the illusions and misconceptions that we had believed in for over 30 years. These misconceptions or past views are detailed below, together with current views.

#### *Cost of Project Management*

- Misconception: Project management will require more people and increase our overhead costs.
- Present view: Project management allows us to lower our cost of operations by accomplishing more work in less time and with fewer resources without any sacrifice in quality.

#### *Profitability*

- Misconception: Profitability may decrease.
- Present view: Profitability will increase.

#### *Scope Changes*

- Misconception: Project management will increase the number of scope changes on projects, perhaps due to the project manager's desire for creativity.
- Present view: Project management provides us with better control of scope changes. Good project managers try to avoid scope changes.

#### *Organizational Performance*

- Misconception: Because of multiple-boss reporting, project management will create organizational instability and increase the potential for conflicts.
- Present view: Project management makes the organization more efficient and effective through better organizational behavior principles.

#### *Customer Contact*

- Misconception: Project management is really "eyewash" for the customer's benefit.
- Present view: Project management allows us to develop a closer working relationship with our customers.

#### *Problems*

- Misconception: Project management will end up creating more problems than usual.
- Present view: Project management provides us with a structured process for effectively solving problems.

#### *Applicability*

- Misconception: Project management is applicable only to large, long-term projects such as in aerospace, defense, and construction.

- Present view: Virtually all projects in all industries can benefit from the principles of project management.

*Quality*

- Misconception: Project management will increase the potential for quality problems.
- Present view: Project management will increase the quality of our products and services.

*Power/Authority*

- Misconception: Multiple-boss reporting will increase power and authority problems.
- Present view: Project management will reduce the majority of the power/authority problems.

*Focus*

- Misconception: Project management focuses on suboptimization by looking at the project only.
- Present view: Project management allows us to make better decisions for the best interest of the company.

*End Result*

- Misconception: Project management delivers products to a customer.
- Present view: Project management delivers solutions to a customer.

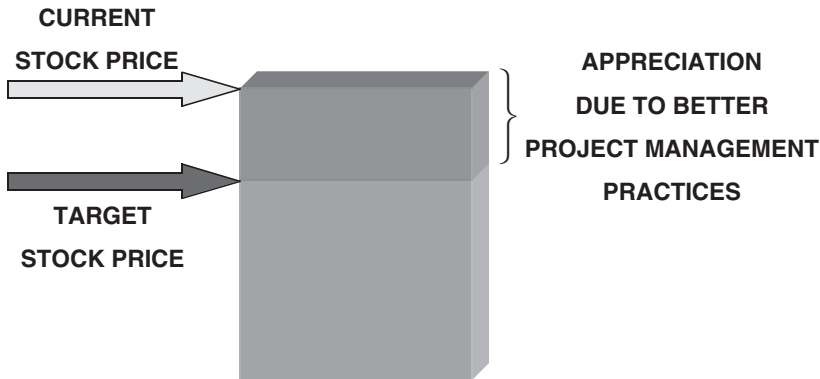
*Competitiveness*

- Misconception: The cost of project management may make us noncompetitive.
- Present view: Project management will increase our business (and even enhance our reputation).

**WALL STREET BENEFITS** 

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The benefits recognized by the present views of project management are now seen to be strategic initiatives designed to enhance shareholder value. Perhaps one of the best examples showing this is the effect on stock price illustrated in Figure 1-1. An executive who wishes to remain anonymous believes that the difference between the target selling price of his company's stock and the actual selling price can be attributed to the quality of the company's project management system and management's ability to execute projects within time, cost, and quality constraints and to the customer's satisfaction. If the actual selling price was below the target selling price, it might indicate that the company, especially if it were



**FIGURE 1-1.** Impact on stock price as a result of better project management.

project-driven, was having fundamental problems with project execution, which would affect competitiveness and profitability.

The concept behind Figure 1-1 may seem plausible from a theoretical point of view. In reality, other forces may exist that can have a significant impact on the stock price, such as recessions, lack of new products, competitor's activities, legal problems, and ratings by financial institutions.

It may take years for a company just beginning to adopt project management to reap the potential benefits shown in Figure 1-1. Some of the organizations that believe they are achieving the benefits of Figure 1-1 are in these fields:

- Automotive subcontractors, some of whom are now treated as “partners” by their customers due to the quality of their project management systems.
- Financial institutions, especially those that are aggressively acquiring and assimilating other organizations and rapidly integrating both cultures into one without any appreciable negative effect on earnings.
- High technology companies who have beaten their competitors to the marketplace with new products.

Not all companies have the ability to reap the benefits of project management. Some do not yet recognize the benefits of or need for strategic planning for project management. Others recognize its importance but simply lack expertise in how to do it. In either event, strategic planning for project management is a necessity.

## STAKEHOLDERS

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Given the fact that project management is no longer seen as just a quantitative tool for the employees, but is recognized as a source of benefits to the whole cor-

poration, project management must satisfy the needs of its stakeholders. Stakeholders are individuals or groups that either directly or indirectly are affected by the performance of the organization. These individuals are not only affected by the organization's performance, but may even have a claim on its performance. As an example, unions can have a strong influence on how a project management methodology is executed. The general public and government agencies may be affected through health, safety, and ethical issues in the way projects are executed.

Although there are several ways to classify stakeholders, the most common method is as follows:

#### *Financial Stakeholders*

- Stockholders
- Financial institutions (suppliers of capital)
- Creditors

#### *The Product/Market Stakeholders*

- Primary customers
- Primary suppliers
- Competitors
- Unions
- Government agencies
- Local government committees

#### *Organizational Stakeholders*

- Executive officers
- Board of Directors
- Employees in general
- Managers

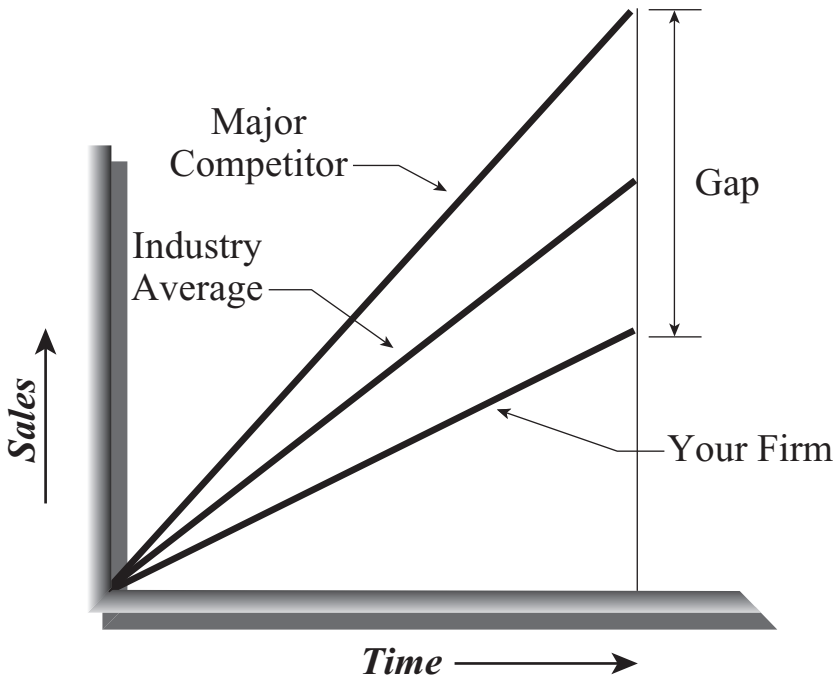
Any strategic planning efforts must focus on the best interests of all of an organization's stakeholders, not merely a few.

## **GAP ANALYSIS**

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There are two primary reasons for wanting to perform strategic planning for project management. First and foremost is the desire to secure a competitive advantage. The second reason is to minimize the competition's competitive advantage or to strengthen your own competitive advantage.

The key to reducing any disadvantage that may exist between you and your competitors is the process known as gap analysis. Figure 1–2 illustrates the basic concept behind gap analysis. You can compare your firm either to the industry average or to another company. Both comparisons are shown in Figure 1–2.



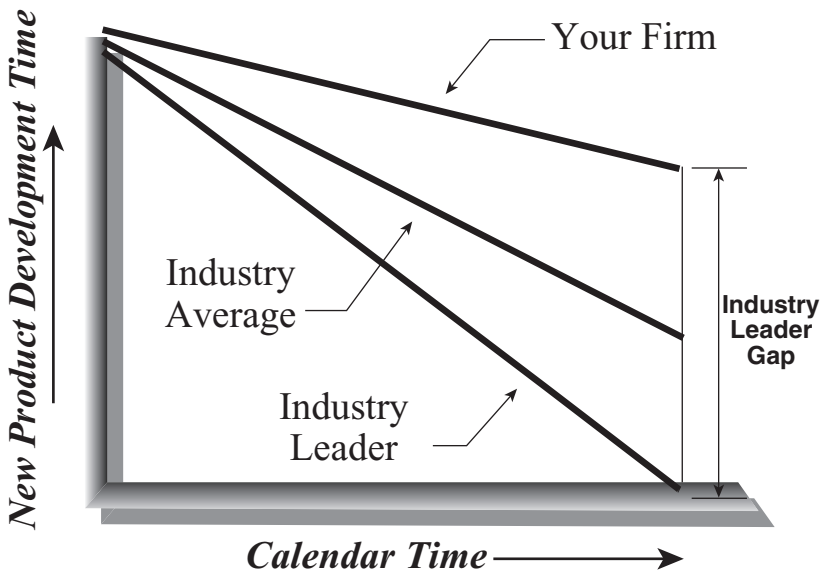
**FIGURE 1-2.** Gap analysis.

Just for an example, using Figure 1-2, we can compare the gaps in total sales. According to Figure 1-2, the gap between your firm and your major competitor is significant and appears to be increasing. The gap between your organization and the industry average is also increasing, but not as greatly as the gap between you and your major competitor.

For a company aspiring to perform strategic planning for project management, there are three critical gaps to analyze:

- Speed to market
- Competitiveness on cost
- Competitiveness on quality

Figure 1-3 shows the gap on speed to market or new product development times. If the gap is large between you and either the industry average or your major competitor, then to win the battle you must develop a project management methodology that allows for the overlapping of life cycle phases combined with appreciable risk-taking. The larger the gap, the greater the risks to be taken. If the gap cannot be closed, then your organization must decide if its future should rest on the shoulders of a “first-to-market” approach or if a less critical “me-too” product approach is best. Another unfavorable result would be the firm’s inability to compete on full product lines. The latter could impact the firm’s revenue stream.



**FIGURE 1-3.** Gap analysis (time).

Another critical aspect of the schedule gap analysis shown in Figure 1-3 is customer's future expectations. Consider, for example, the auto manufacturers and their tier one suppliers. Today, these organizations operate on a three-year life cycle from concept to first production run. If you were a tier one supplier, however, and you found out that your primary customers were experimenting with a 24-month car, then you would need to perform strategic planning, not only to be competitive but also to be able to react quickly should your customers mandate schedule compression.

A gap on cost is an even more serious situation. Figure 1-4 illustrates the cost or pricing gap. Strategic planning for project management can include for provisions in the methodology for better estimating techniques, the creation of lessons learned files on previous costing, and possibly the purchasing of historical databases for cost estimating.

Good project management methodologies allow work to be accomplished in less time, at lower cost, with fewer resources, and without any sacrifice in quality. But if a cost/pricing gap still persists despite good project management, then the organization may either have to be more selective about which projects it accepts or choose to compete on quality rather than on cost. The latter assumes that your customers would be willing to pay a higher price for added quality or added value features.

Gaps on time and cost may not necessarily limit the markets in which you compete. However, gaps on quality, as shown in Figure 1-5, can severely hinder

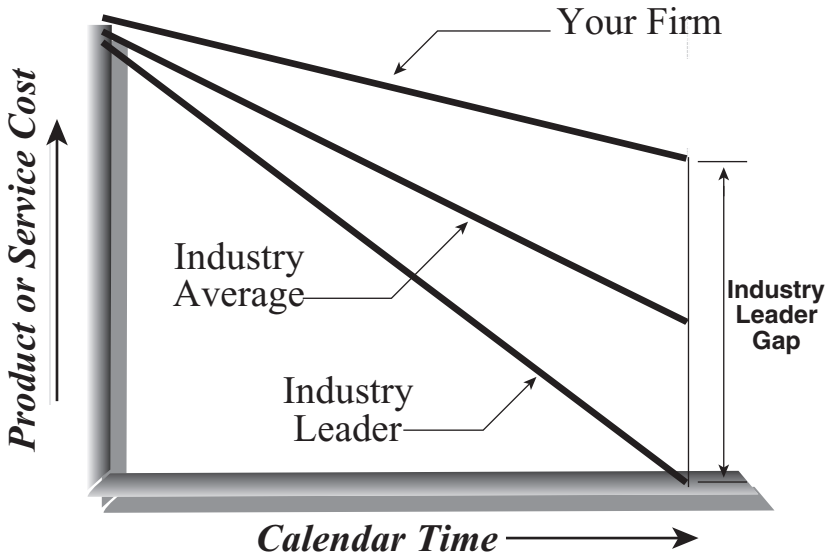


FIGURE 1-4. Gap analysis (cost).

your firm's ability to compete. The critical gap in Figure 1-5 is the difference between the customer's expectations of quality and what you can deliver. Good project management methodologies can include policies, procedures, and guidelines for improving quality. However, the gap on quality takes a lot longer to compress than the gaps on time and cost.

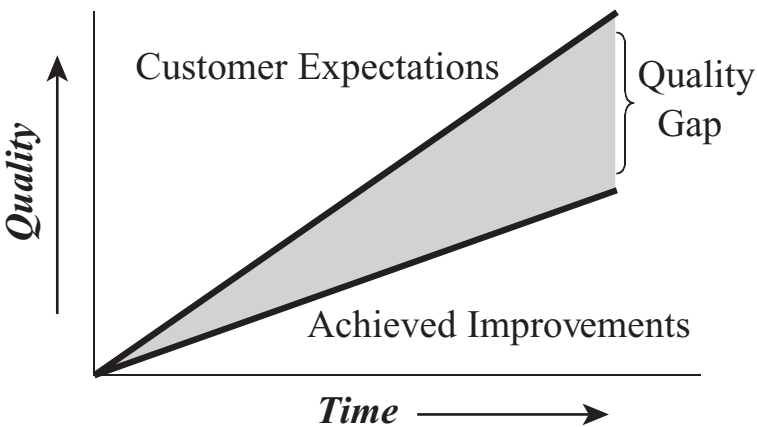


FIGURE 1-5. Gap analysis (quality).

**CONCLUDING REMARKS** 

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Strategic planning for project management, combined with a good project management methodology, can compress the gaps on time, cost, and quality. However, there are still critical decisions that must be made. Marketing must decide what products to offer and which markets to serve. The information systems people must assist in the design, development, and/or selection of support systems. And senior management must provide sufficient and qualified resources.

Strategic planning for excellence in project management needs to consider all aspects of the company: from the working relationships among employees and managers and between staff and management, to the roles of the various players (especially the role of executive project sponsors), to the company's corporate structure and culture. Other aspects of project management must also be planned. Strategic planning is vital for every company's health. Effective strategic planning can mean the difference between long-term success and failure. Even career planning for individual project managers ultimately plays a part in a company's excellence, or its mediocrity, in project management. All of these subjects are discussed in the following chapters.

