

MAXIMIZING PROJECT VALUE

DEFINING, MANAGING, AND MEASURING
FOR OPTIMAL RETURN



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Jeff Berman

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THIS BOOK IS DEDICATED TO MY WIFE, ABBE,
AND MY DAUGHTER, RAICHEL, FOR THEIR NEVER-ENDING LOVE,
INSPIRATION, AND SUPPORT FOR WRITING THIS BOOK.



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C O N T E N T S

Introduction: Beyond “On Time and On Budget”	1
The Project <i>Speed2Value</i> ™ Road Map	5
 Chapter 1 Defining the Project Business Case and Getting Buy-In from Top Management	 9
Business Case Process Life Cycle	13
Step 1: Determining the Need for a Project	13
Step 2: Initiating the Project	15
Step 3: Making the Business Case	23
Business Case Influencers and Supporters	26
Seven Principles for Developing a Winning Business Case	60
Step 4: Project Selection Techniques	63
Step 5: The Business Case Approval Process	65
 Chapter 2 Executing a Project with a Business Value Mindset	 67
Defining Project Value Drivers	70
Key Performance Indicators	73
 Chapter 3 Achieving Project Value Through Stakeholder Management	 87
Change Management	90
Stakeholder Management	97

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Stakeholder Management as a Process	104
Stakeholder Communication	121
Chapter 4 Creating Organizational Alignment and Accountability	137
The Impact of Change	137
Accountability	140
Rewards and Incentives	146
Chapter 5 Establishing an Ongoing Project Performance Tracking Process	148
Reporting Mechanisms	149
Metrics Visibility	155
Correction Management	158
Chapter 6 Conclusion	160
Appendix A Project Business Case Exercises	163
Exercise A-1: Project Initiation Document	163
Exercise A-2: Initial Assessment	165
Exercise A-3: Risk Assessment	167
Exercise A-4: Resource Requirements	169
Exercise A-5: Total Project Cost Estimate	172
Exercise A-6: Financial Return	174
Appendix B Stakeholder Management Exercises	177
Exercise B-1: Sharing Your Experience with Change	177
Exercise B-2: Identifying Stakeholders	179
Exercise B-3: Assessing Stakeholders	182
Exercise B-4: Developing a Stakeholder Communication Plan	187
Exercise B-5: Establishing Stakeholder Accountability	189
Key Terms	191
Index	195
About the Author	200



I N T R O D U C T I O N

B E Y O N D “ O N T I M E A N D O N B U D G E T ”

What is project success? I always find the answer to this question interesting when speaking with different executives and managers across the country during my seminars and workshops. Most of the time, during these seminars, I get quick and confident answers back, often with many people simultaneously saying the same thing—“being on time and on budget”—as if they were part of a congregation or cult. The fact is that we have all been taught this simple rule of project management: Thou shall not be late and thou shall not exceed the project budget.

I got it. If I deliver my project on time and on budget, my boss will be happy (this is good), I will be considered a good project manager, hopefully get promoted (this is great), and the company overall is better off because the project I just completed was a success. All is good.

Now don't get me wrong, being on time and on budget is a good thing, but does this really mean that a project is successful? Is it possible that although a project is on time and on budget that the company is really better off? Perhaps the best way to answer these questions is to first define project failure. I can't tell you how many times executives have told me that their project(s) failed because the solution implemented

(whether a new technology, process, or organizational change) was not adapted to by the people affected by the project. These same executives tell me quite passionately that they have spent money (in some cases millions of dollars) with little or no result because the people just didn't adapt to the new change within the organization.

In the case of system implementations, this meant that the system users were not using the new technology and had gone back to manual processes or spreadsheets. In the case of process changes, this meant that department personnel and process owners were not adhering to the new policies and procedures. In any case, the bottom line is that the people went back to the old way of doing things after the change was implemented even though the project was on time and on budget. This means that the project objectives were not achieved and therefore no business value was obtained. Does this sound familiar?

Many of our projects today consume precious months (sometimes years) of time, allocation of resources (taking them away from doing other things), and a big budget that is spent with little or no gain. Of course, this doesn't account for the many projects that miss project timelines as well as exceed project budgets, making matters even worse. The fact is that failed projects, particularly the ones that provide little or no business value, cost companies millions of dollars each year. The result: lower profits, lack of business growth, and overall lack of competitiveness in the marketplace.

So what is business value? Business value can be summarized into four main categories:

1. Cost reduction
2. Business growth
3. Maintaining operations (e.g., regulatory compliance)
4. Speed and efficiency

A typical project will fall into one or more of these categories in regards to its overall objective. A project that is properly defined and

executed should be linked to these business objectives from start to finish. This means that you as project manager must begin to change your mindset from tactically executing your project to strategically executing your project with these business objectives in mind. As such, project success becomes less dependent on the tactical execution of your project (being on time and on budget) and more focused on your project’s ability to deliver business value. I look at it this way:

$$\text{Project success} = (\text{on time} + \text{on budget}) \times \text{business value}$$

Simply put, business value is a multiplier that increases the overall success of a project: The more business value that is achieved, the more successful your project will be. This means that even though a project is not on time and/or on budget, it can still be successful if project business value is achieved. Conversely, a project may be delivered on time and on budget and still be considered successful if no business value is achieved. In the latter case, however, project success is minimized because companies that deliver projects without providing business value will ultimately lose profits, lack business growth, and lose to the competition. It is the company that best utilizes precious time, money, and resources to achieve project objectives that will win in the end. As such, project business value becomes the key differentiator for delivering project success.

I believe that a project team spends at least 80 percent of their time implementing the solution. The solution may be a new system, a new process, or some other type of change that requires a new way of operating your business. The purpose again is to achieve one of the four business objectives mentioned above (reduced cost, business growth, etc.). Although most of our time and effort is spent on the actual implementation, I believe that only 30 percent of the business benefits will actually be achieved from just the implementation part of the project. The other 70 percent of the benefits will come from putting in place a process for making people accountable for the change and having a system in place

for realizing the project benefits long after the project has been implemented.

This means that we as project managers have been taught and are still focused on just implementing the solution, which results in only 30 percent of the benefits. In many cases, even the 30 percent is never achieved. I believe this is because our mindset is solely focused on the tactical execution of being on time and on budget and not on the strategic business objectives that have been established at the onset of getting our project approved. Therefore, there is no link between the original business case of our project and the project value that is to be delivered by stakeholders after the project has been executed.

This is a fundamental flaw in our role as project manager, and it is a mistake for company executives not to ensure that this link is developed and delivered. “On time and on budget”—although still critical for project execution—is not a differentiator for business success and will not put your company ahead of the competition. Projects must go beyond “on time and on budget” to deliver business value, which I advocate as the new paradigm for project success.

Maximizing Project Value is the first book of its kind that provides a proven process for getting projects approved and maximizing project value. Through a step-by-step best practice approach for achieving project success this book will guide you through best practices and lessons learned from hundreds of projects at Fortune 500 companies as well as smaller companies focused on the multiplier of business value for achieving project success. The focus of the book will provide a proven *Speed2Value*™ framework that will merge the tactical and strategic execution of a project by linking the original business case to realizable benefits after your project has been implemented. The result is a new paradigm for managing your project by establishing an ongoing project performance process that will achieve business objectives.

Maximizing Project Value is a “how to” book that will methodically guide you through this *Speed2Value*™ framework. We will start with learning how to establish a sound business case that can navigate the

influential barriers and is both practical and defensible in terms of financial risk and reward. From establishing a solid business case you will learn to manage your project with business objectives in mind by developing project value drivers and Key Performance Indicators (KPIs) that will create an operational foundation for measuring ongoing project performance. From there, you will learn how to put in place a stakeholder management and communication process that motivates stakeholders to be accountable for results.

In the end, you as a project manager or company executive will be able to put in place an ongoing project performance process that will not only track ongoing performance, but will help ensure that what was approved in the original business case is actually being delivered. If you are like everybody else, project success is your goal. The difference is that you will now be armed with an ability to achieve project success by going beyond ‘‘on time and on budget’’ to maximize project value.

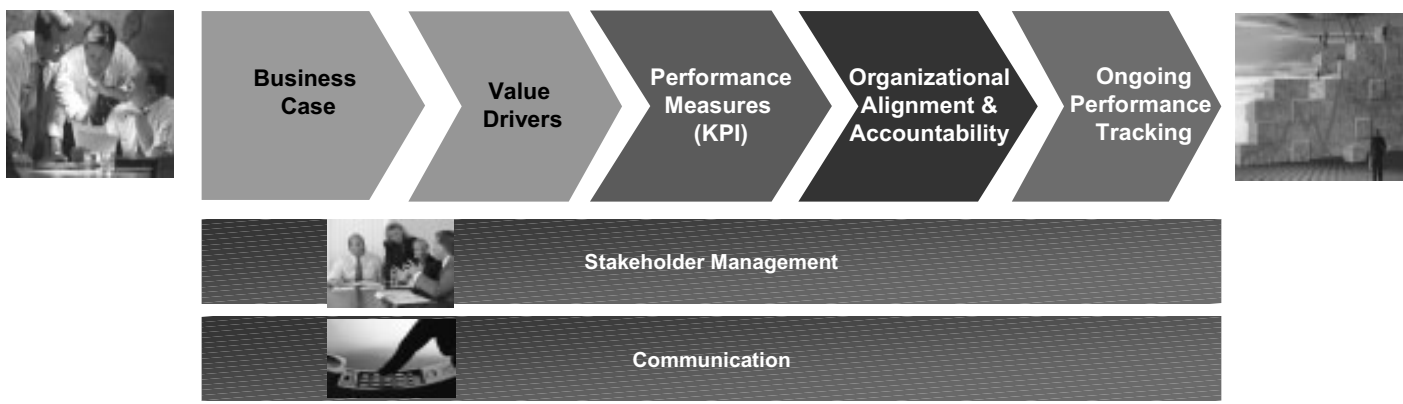
THE PROJECT *SPEED2VALUE*[™] ROAD MAP

So how do you get business value from your projects? The answer is by focusing on executing a project from start to finish with maximizing project business value in mind. I call this the Project *Speed2Value*[™] Road Map, as depicted in Figure I-1. Used on dozens of Fortune 500 projects large and small throughout the world, the Project *Speed2Value*[™] Road Map is one of the most comprehensive approaches within the industry specifically designed to manage the full project life cycle and to track ongoing project performance.

Speed2Value[™] was developed based on best practices from the Project Management Institute’s (PMI’s) *PMBOK*[®], Six Sigma, Risk Management, Financial Management, and Change Management. The nice thing about the *Speed2Value*[™] framework is that it can be used on all types of projects in all types of industries in conjunction with project execution methodologies, such as PMI’s *PMBOK*[®]. The premise of

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FIGURE I - 1 . The Project *Speed2Value* Road Map: The *Speed2Value* methodology is one of the most comprehensive approaches within the industry and is specifically designed for managing the full project life cycle and for tracking ongoing project performance.



Speed2Value[™] is based on three main ingredients that are required for project success:

1. *Buy-In for Your Project from Top Management.* Without the support from top management, your project will not be a priority and will ultimately compete for the resources required for executing the project, proper funding to implement it, and time needed to execute.

2. *A Clear Plan That Links the Original Project Business Case to Measurable and Ongoing Project Value.* Without a link to measurable project value, your project will just be another project that is executed on time and on budget without delivering a benefit to the company. Without a plan for obtaining project business value, it may be difficult not only to get your project approved, but to demonstrate that it is successful.

3. *A Process to Manage Change and Hold Key Stakeholders Accountable for Results.* As previously discussed, project success is determined by the ability of key stakeholders to adapt to the change or impact of the project. Without stakeholders adapting to change, the project will not deliver business value and will ultimately be considered a failure.

The starting point for achieving *Speed2Value*[™] is to focus on developing a solid business case justification that clearly articulates a plan for delivering project success and therefore project business value. A successful business case will be the determining factor for getting your project approved and obtaining the required funding, resources, and time commitment from your company and executives. Leveraging off of the business case, the *Speed2Value*[™] framework moves toward establishing “how” your project will identify and execute against business value drivers. Each of these value drivers show which financial drivers, business processes, and operational metrics will be used to drive the project results. From the point of identifying the project value drivers, key project performance metrics are established as a foundation for measuring project results.

After establishing these metrics, the organization is realigned so that

accountability can be assigned. Once accountability is assigned, an ongoing tracking process is in place so that project results can be measured long after your project has been implemented. The true measure of project success is the point when your project is completed and when the true project results can be measured. This is where the ongoing business operations take over from the execution of the project. Without a process in place to adapt to the project changes as well as ensure accountability of results, project success will just be limited to being on time and on budget, without the means to measure business benefits.

In order to drive this entire *Speed2Value*™ process, the framework calls for the establishment of *foundation enablers*. These foundation enablers are the common thread that ties the original business case to the measurable project value to be achieved long after your project has been implemented. These foundation enablers are Stakeholder Management, Communication, and Project Risk Management. Without putting in place and managing these foundation enablers during the project execution, project success will be limited.

Buy-in from key stakeholders takes diligent and keen management through proper communication. As discussed above, without the buy-in from your project stakeholders, the business value will not be achieved. This is frustrating for the executives as well as wasting a lot of time, money, and resources of the company. The end result is exposing your company and project to unnecessary business risk. Business risk could be ultimately avoided if properly managed throughout the duration of the project. By establishing these foundation enablers as pillars to your project, success—defined as achieving real business value—will be the ultimate result. Through the remaining chapters of this book we will explore each dimension of the Project *Speed2Value*™ Road Map and how it can be used as part of your overall project implementation plan. Using this framework will be the difference between getting beyond “on time and on budget” to delivering real project success in terms of achieving overall project business value. We will use the *Speed2Value*™ framework throughout this book as a step-by-step guide for maximizing project value.

DEFINING THE PROJECT BUSINESS CASE AND GETTING BUY-IN FROM TOP MANAGEMENT

The first step in the Project *Speed2Value™* Road Map is to develop a project business case. In doing so, you as project manager will begin to lay the foundation for achieving project success by obtaining buy-in from top management and getting your project approved. This means getting the powers at large to give you the required funding, resources, and time to execute the project. Sound simple? It is not by a long shot. With chief executives mandating tighter control over spending, financial support for projects comes at a premium. Resources are limited at best, and there is not enough time to do all things necessary to keep the business running smoothly. If you are like the rest of us, I am sure you have put in your fair share of working more than eight hours in a day, weekends, and holidays on occasion. Am I right?

With that said, I am sure that you are not the only one in your company with limited time or a good idea for a project. It is a given that every proposed project out there is in competition for the same resources, limited funding, and time to be spent for implementation.

Therefore, it is up to you to justify that your project is better than the rest of the proposed projects so that you are one of the few winners for getting the limited resources, funding, and time commitments from the powers that be.

The key to getting your project approved is your ability to prove that your project, among all others, will deliver business value to the company. This means that you must be able to articulate “how” your project will deliver one or more of the main business drivers: cost reduction, business growth, maintaining operations (e.g., regulatory compliance), and increasing speed and efficiency. Keep in mind that these business drivers are why projects are executed. These are the drivers that keep your company profitable and keep your company competitive, and you must demonstrate how one or more of these business drivers can be achieved by your project in order for it to get approved. This is the premise for putting together what is called a project business case.

In simple terms, a *project business case* is a project justification document that outlines a project proposal and plan for authorized funding, resources, and implementation. It is a plan for execution and more importantly a plan for achieving project business value. The objective of a project business case is to justify:

- *What* benefit and cost the project brings to the business
- *Why* the project is important and should be funded
- *Where* the project needs to be implemented
- *When* the project can be implemented
- *Who* is required to implement the project
- *How* the project can be implemented with success

A business case is typically mandated by organizational policies and management preferences. The key is that the business case is used to approve a project as well as to serve as a baseline for determining project success. Think of the business case as your first benchmark for your plan of action as well as a measure for success. If all goes right and your project

is approved, you will be on your way toward laying the foundation for building a project success plan of action.

Like a blueprint for building a house, a business case is the blueprint for achieving project success. Would you want your house built without a plan? If you are going to invest hundreds of thousands of dollars, I'm sure you would want to know what the plan is:

What type of house is it (3 bedrooms or 4)?

Why does it cost so much?

Where is it going to be located (facing north or south)?

When will it be built?

Who is building it (are they reputable)?

How will the house serve me and my family for the future to come?

Wouldn't you agree that you would have to know the answers to these questions before deciding whether to spend your hard-earned money on building the house? It's the same with the business case for a project, but instead of it being your hard-earned money, it is your company's. Instead of you and your family living in the house for the future to come, it is your company and all of its employees who will be affected by the project you are proposing. As such, the business case is the blueprint for success; it is the plan for a project that will best serve company employees and help make your company more profitable and better off by its implementation. It is therefore up to you to articulate the case why your project will serve the company best and how you plan to make it happen.

A business case can look different from organization to organization; however, the key components remain the same. All of the basic questions must be answered (who, what, when, where, why, and how). I frequently get asked, "Do all projects require a business case?" The quick answer is yes, although some business cases are more formal than others. For instance, a small project, such as deploying six new laptops for the

marketing group, may only require a purchase order and an e-mail committing resources from the Information Technology department.

However, the thought process for approving the small project is the same as for approving a larger project. *Who* needs the laptops (everyone or just a few people in the department)? *What* types of laptops are required (as you know there are many to choose from)? *When* do the laptops need to be purchased and to be in the hands of the marketing people? *Where* will the laptops be used? *Why* are laptops even needed? *Why* can't they use desktop computers like everyone else? *How* will the laptops be deployed? I am sure you get the picture. The point is that no matter how small the project, the thought process is the same as long as funding, resources, and time are involved. More than likely this will be the case most of the time.

Most projects, however, require a more formal type of business case, because they require more funding, resources, and time to implement. By formal, I mean a well-documented report that clearly articulates the answers to all of the questions (who, what, when, where, why, and how). A good rule of thumb is that the larger the proposed project, the more time is required for formalizing a business case.

Information Technology projects are the most common projects requiring business cases. These may include projects related to networking, application systems, system integration, reporting, technical infrastructure, or software development. Other types of projects may include research & development (e.g., new products or pharmaceuticals); implementing new processes (e.g., reengineering the work flow of the supply chain); organizational restructuring (e.g., a merger of two companies or departments); construction, design, and engineering (e.g., highways, facilities, housing); and many, many more. Basically, projects ranging from thousands to many millions of dollars require a business case as long as they are competing for the same business constraints (time, money, and resources). The bottom line is that the business case can serve as the formalized document for getting your project approved as well as a baseline for measuring project success.

BUSINESS CASE PROCESS LIFE CYCLE

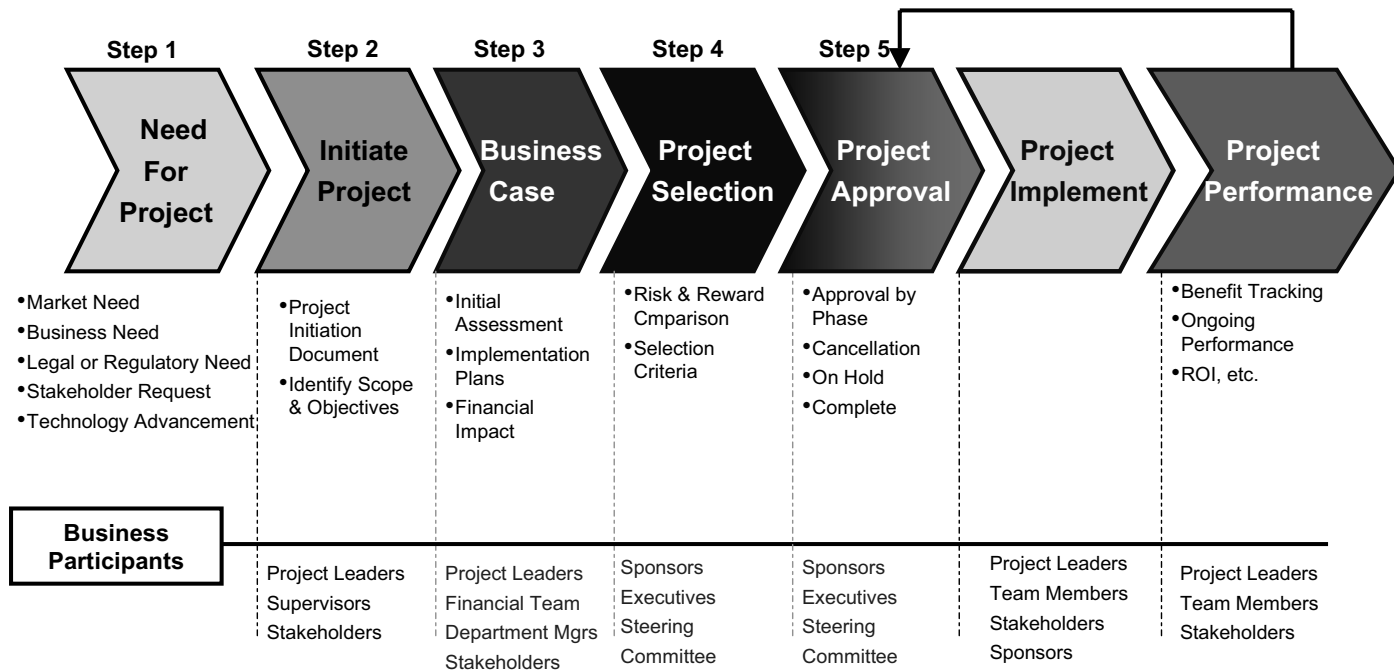
Most people don't think much of a project business case, let alone think that there is actually a process that a project business case goes through in order for it to get approved and succeed in delivering measurable business benefits. Getting a project approved takes effort, thought, and finesse. A project business case is a way to help achieve the goal of getting your project approved. It follows its own sequence of steps or phases before it is approved. This is what I call the business case life cycle, or sequence of steps (see Figure 1-1).

STEP 1: DETERMINING THE NEED FOR A PROJECT

The first step of the business case life cycle is determining the *need for a project*. Needs for a project can be driven by a market need, such as a new product that will fill a certain void in the marketplace or a new elementary school to be located in a new master plan community. There may also be a business need, like a new software application that will help in productivity or efficiency of the workforce or a new restaurant to be built to service a community. Regulatory or legal need is also a driver, such as compliance with a financial filing or the advocacy of a product to be used on humans (e.g., drugs and medical devices).

Of course, the need for a project may derive from a simple stakeholder request, whether it is a customer change to a product or a taxpayer requesting the widening of a highway to help handle traffic due to population growth. Last but not least, a need for a project may be driven by a technological advancement, such as new manufacturing equipment or computer and phone networks to enhance communication. The bottom line is that the need for a project may come from many different places and at different times from different people or organizations, or even just from an idea that you developed. Without the need for a project, there is no reason to pursue getting resources, time allocation, or money.

FIGURE 1 - 1 . Business case life cycle: need for a project.



STEP 2: INITIATING THE PROJECT

Once the need is determined and it is deemed an idea to pursue, the project should then be *initiated*. This is the second step of the business case life cycle. Sometimes a project initiation comes from you just asking your boss for the verbal approval to pursue a project in terms of developing a business case. Other times, a formal request is required to be filed so that a committee or council can approve the need for a detailed analysis or formal business case. For the larger and more formal type projects, this initiation is what I call the *Project Initiation Document*, or PID (see Figure 1-2). This is a document that begins the business case development process by formally documenting the project objectives and description; leadership and organization; and overall project scope.

Objectives and Description

The first component of the PID is the “Objectives and Description” section. Basically, this is the “what” and “why” you want to obtain funding and resources (see Figure 1-3). Within the objectives and description section is the unique project identifier. Typically this is the project identification number or project code most likely assigned by the accounting department or cost accounting system. This number can be randomly assigned, or in some cases is a “smart” number whereby the codes within the number are defined to mean different things, like department or cost center.

For example, in the project code “00301CAP,” “003” might stand for public works department, “01” for January, and “CAP” for capital project. The idea is that many companies may have many different unique identifiers or project codes particular to their organization. The only rule of thumb is that the project number be unique for the purposes of being tracked and accounted for once it is approved.

The second part of the “Objectives and Description” section of the PID is the project description itself. Typically this is a short text description of the project such as, “Deer Valley Elementary School Building”

FIGURE 1 - 2 . Project Initiation Document (PID).

Based on determined needs for a project, a Project Initiation Document (PID) should be put together for obtaining initial approval to work on a formal business case.

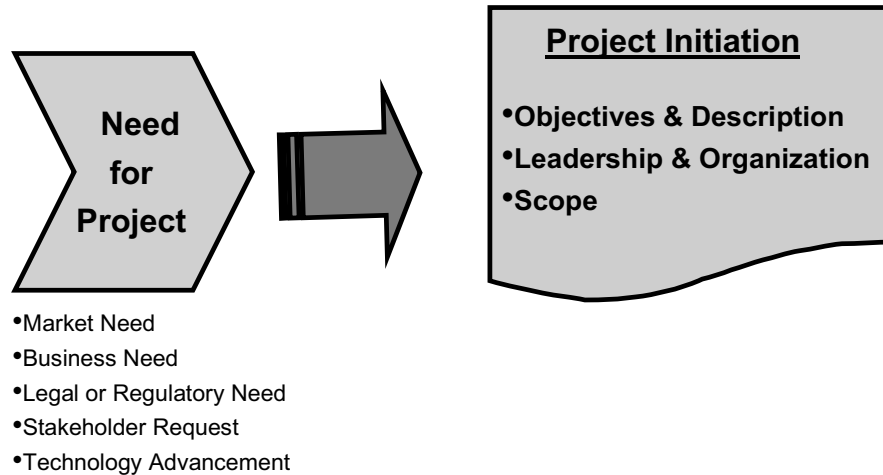


FIGURE 1 - 3 . Project initiation: Objectives and Description.

To initialize a project, typically an organization requires a unique identifier and a project description along with two main objective categories.

- **Project Identifier**: Typically a unique project number or an assigned account number.
- **Project Description**: A short text project name that describes the project.
- **Business Objective**: Identifies the main business objective on which the project will have an impact. Although many organizations have unique and specific business objectives related to their business, typical business objectives include:
 - Cost Reduction
 - Revenue Growth
 - Maintaining Operations (e.g., regulatory compliance)
 - Speed and Efficiency

or “SAP Software Implementation.” The key is that it is short and sweet and gets to the core of what the project is about. Think of the project description as something that would describe the project in a nutshell to someone with little knowledge about the details of your business.

Next describe your business objective or what your overall mission of the project is going to be. Typically this would include cost reduction, revenue growth, maintaining operations, and achieving speed or efficiency. The business objective is critical to establishing the foundation for why it is important that funding and resources are to be obtained for this project.

Leadership and Organization

The second component of the PID is “Leadership and Organization,” or *who* will be involved with leading the project. Within this section, you should describe the project leader, project sponsor, and project category (see Figure 1-4). The *project leader* is typically a project manager who will be responsible for managing the daily activities and implementation of the project during the project life cycle implementation. The *project sponsor* is typically a senior level manager who will oversee the project implementation and be responsible for ensuring that business risks are mitigated and the project will be successful.

The *project category* is where the project belongs within the organization of project portfolios. Many organizations have unique and specific project categories related to their business. Examples of projects within an IT organization may include application systems (such as human resources, accounting, enterprise resource planning [ERP], and supply chain); data and information (e.g., data warehouse, reporting, development); infrastructure (e.g., desktop, hardware, networking, telecommunications); operations and services (e.g., manufacturing, training, knowledge management, Internet). Another example may be projects within a state agency; projects of the Department of Transportation might include research, highway design, construction, and maintenance. Within each one of these categories you may have more granular level

FIGURE 1 - 4 . Project initiation: leadership and organization.

The Project Initiation Document should include the determination of the project leaders, sponsors, and categories.

- **Project Leader**: Typically a project manager who will be responsible for managing the daily activities and implementation of the project during the project life cycle.
- **Project Sponsor**: A senior level manager who will oversee the project implementation and be responsible for ensuring that business risks are mitigated and the project will be successful.
- **Project Category**: The category that the project belongs to within the organization of project portfolios. Many organizations have unique and specific project categories related to their business, however, typical categories include:
 - Application Systems (e.g. HR, accounting, ERP, supply chain, etc.)
 - Data & Information (e.g. data warehouse, reporting, development, etc.)
 - Infrastructure (e.g. desktop, hardware, networking, telecommunications, etc.)
 - Operations & Services (e.g. manufacturing, training, knowledge management, internet, etc.)

categories: for construction, for instance, you might have highways, roads, and bridges.

The point is that categories need to make sense to the organization and that they should be defined at the corporate or enterprise level so that every project that is initiated is classified into one of the already predefined categories. In the end, the organization will be able to review a portfolio of projects and be able to properly assess which projects and how many of what type to approve for funding and resources.

Project Scope

The third and perhaps most critical component of the PID is the “Project Scope” (see Figure 1-5). The Scope is the basis for putting together all of the details required for the detailed business case document and provides a way for executives or readers of the PID to get their hands around the project by sensing how big it really is. Within the Scope section of the PID the following items should be discussed:

Project location

Project business units or organizational departments

Stakeholder departments

Project milestones

Project approvers

The *project location* describes the location(s) where the project will be implemented. Typically this can include manufacturing plants, facilities, regions and/or countries. *Project business units* are defined as strategic operating units of the business, or a unit of the business that has its own profit & loss statement. A stakeholder is someone or a group of people that will be affected by or that can have an impact on the project, either positively or negatively.

Stakeholder departments are the departments or organizational units to which key stakeholders belong and which will be affected by this project (e.g., accounting, manufacturing, construction). Stakeholder

FIGURE 1 - 5 . Project initiation: project scope.

Scope is one of the key elements for initiating a project. This will be a key input to developing the business case details.

- **Project Location:** The location(s) where the project will be implemented. Typically this can include plants, facilities, regions, and countries.
- **Project Business Units:** A strategic operating unit of the business or a unit of the business that has its own Profit & Loss statement.
- **Stakeholder Departments:** The department to which key stakeholders belong and which will be affected by this project (e.g., accounting, manufacturing).
- **Project Milestones:** The key project stages for the project life cycle (e.g., Initiate, Plan, Execute, Monitor, Close).
- **Project Approvers:** The organizational role that is required to approve the project at each project stage or milestone (e.g., IT director, CIO, VP operations, accounting manager, plant manager).

units can also include external customers, neighborhoods/communities, or government agencies. Identifying a stakeholder group or unit is key to the overall scope of the project because they may have an impact on the project one way or the other by increasing or mitigating the overall project risk and the probability of success. If, for instance, a stakeholder group identified includes the accounting department and we know that accounting never wants to change their way of doing things, this may jeopardize getting your project approved unless you have a clear and well-thought-out plan to mitigate the risk invoked by this group.

Project milestones are the next important element of the scope. Milestones include the key project stages for the project life cycle implementation (e.g., Initiate Plan, Execute, Monitor, Close) along with dates and duration (length of time to complete each stage). The milestones provide a view of the high-level activities that will be accomplished by the project, along with key dates. This high-level timeline provides executives a quick view of when the project will be completed.

The last part of the scope is identification of the *project approvers*. Typically this will include the organizational role that is required to approve the project at each project stage or milestone (e.g., functional manager or department head, accounting manager, director). Typically the overall size and complexity of the project will determine how many and which approvers will be required. It is important to identify accountability for approving the project upfront so that the approval process does not increase the overall duration of the business case life cycle. This will help avoid the statement of, “good project idea, but I am not sure who needs to approve it” syndrome.

The PID is a good document for beginning the thought process required for detailing out the business case. It should not take very long to put together and is a good way to get your thoughts down to see if your idea is really worth pursuing in terms of the effort in putting together a business case.

STEP 3: MAKING THE BUSINESS CASE

Once the PID is completed, the detailed business case development can begin. The business case document is made up of three components (see Figure 1-6):

1. Initial Assessment
2. Project Implementation
3. Financial Impact

Within each of these components, several topics are addressed. Many of the topics under Project Implementation and Financial Impact are part of the overall project selection criteria that an approver goes through in order to make the final decision of whether your project gets approved or not. We will discuss the selection criteria as part of the *business case influencers and supporter section* later in the chapter. For now, let's focus on the Initial Assessment components of the business case (see Figure 1-7).

Initial Assessment

In order to properly assess a project for its merit, we must first look at the current situation of the environment for why the project is needed. This is part of the initial project assessment. Some call this “pain points,” others call it “the need for change.” Basically, you should describe what is currently working well within your business and what is not working so well.

By focusing on what is not working so well, you should then describe the impact of the current situation in terms of the “pain point” or the “need for change.” Discuss things like loss of productivity, low customer satisfaction, high inventory, employee turnover, and low morale. In addition, talk about your competitors. Relate the need for change in terms of what will be lost to competitors if action is not taken. For example, “If we do not take action to address our current pain, then we will lose market share to Company Xtron, our largest competitor.” Loss of market share,

(text continues on page 26)

FIGURE 1 - 6 . Business case components.

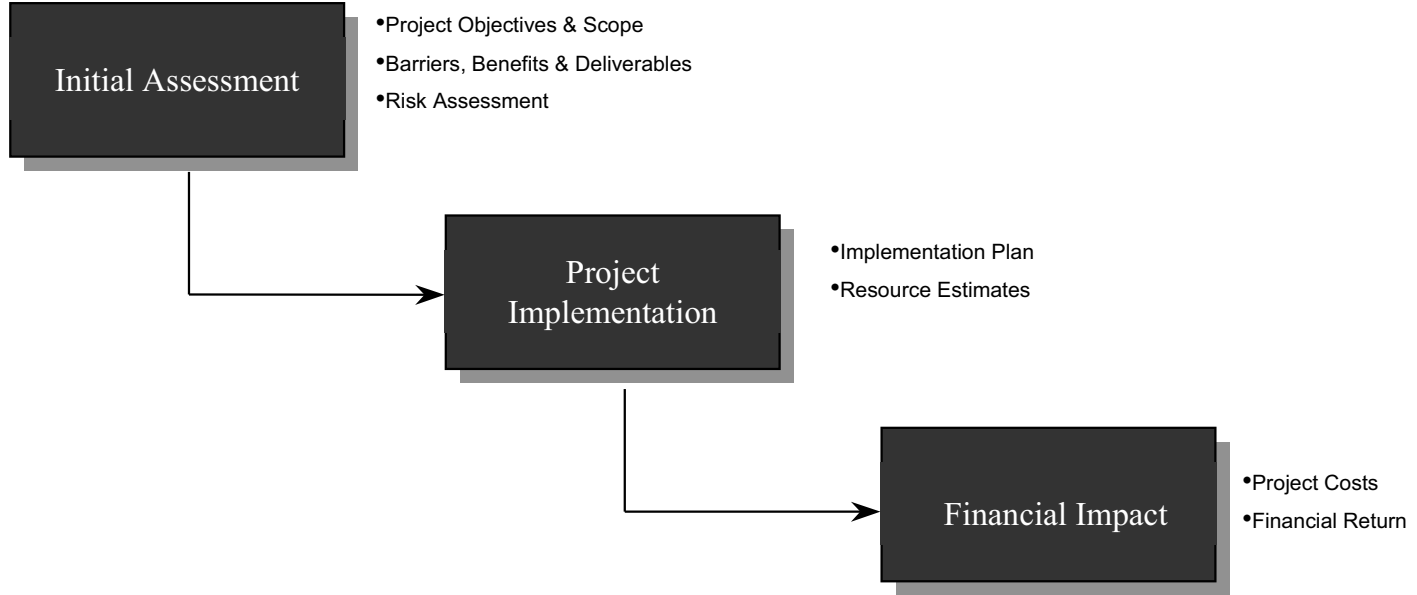
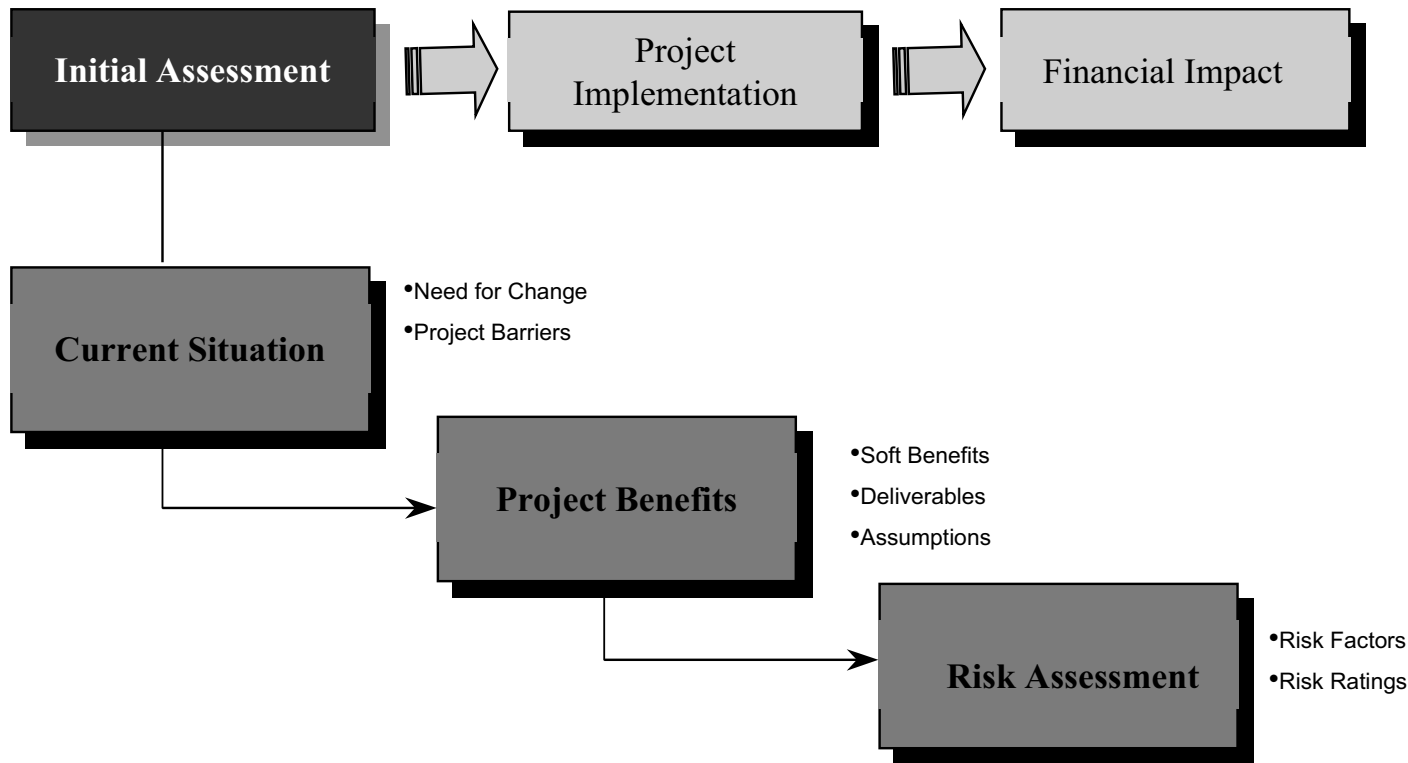


FIGURE 1 - 7 . Initial assessment components.



customers, profit margins, and good employees are all costs to the business that magnify the impact of not changing the current situation.

In addition to the need for change, the project barriers should also be described within the section on “current situation.” *Project barriers* are things that would impede your project from being successful, such as, for example, project location. Say that your project is the construction of a new building in the center of the city. Implementation or construction of the building may cause major issues regarding traffic and logistics for getting equipment to the job site. The result may be delays or additional costs for equipment and permits.

What about the type of project you are proposing? What if this is the first time a project of this nature has ever been done within your organization? This would certainly be a barrier. Your project may also require certain kinds of resources, such as special skills or security clearances for government-related work. Another type of barrier may be the timing of the implementation in relation to business cycles, such as when you are proposing to implement a project during the peak selling season, when resources are scarce. These could all be potential barriers for your project.

In order for your project business case to be credible, it is always a good idea to share your concerns about true barriers openly. As a rule of thumb, if you don’t do a good job thinking through some of the issues, then you will not be prepared enough to answer the right questions to overcome the “nay-sayers” who have the authority to approve or deny your project. Be prepared and be honest. It will go further than you think. In the next section we will discuss the Project Implementation and Financial Impact components of the business case. These will be major parts of the project selection criteria discussion, which is the second key influencer to getting your project approved.

BUSINESS CASE INFLUENCERS AND SUPPORTERS

I would be lying to you if I told you that just putting together a solid business case is all that it takes to get your project approved. Like any

thing in this world, there are always gray areas for getting things done. Getting your project approved is no different. A good business case also considers that there are influencers and supporters who must come in line to get the job done and approve your project for implementation. Make no mistake about it, your ability to navigate between your business case influencers and supporters may be the difference in getting your project approved or having it passed over for some other project. Understanding these influencers and supporters is the key to your success, and your ability to leverage these influencers and supporters throughout the business case life cycle is your silver bullet for obtaining approval (see Figure 1-8).

Influencer #1: Politics

No matter how big or small your project, politics will always come into play for getting your project approved. Whether it is your boss looking for a promotion or his peer competing for the same funding, somebody, somewhere, will have an agenda that could derail all of your hopes and dreams for getting your project approved. Over my twenty-plus-year career in working with many Fortune 500 clients as well as smaller ones,

FIGURE 1-8. Business case “influencers.”



this unfortunately has always been the case. The important thing is to understand this and to incorporate what I call “political mitigation” into your overall plan for building and selling your project business case.

Political mitigation is based on understanding who the players are for approving your project. Who needs to formally sign off on your project? Who influences those who need to sign off? What are the possible road blocks that can cause your designated approver to not approve your project? Depending on how large your proposed project is, in terms of required resources and funding, your proposed project may have up to five different approvers. For a typical IT project, there are three approvers, consisting of the chief information officer (CIO), the chief financial officer (CFO), and the head of the department from where the actual budget will come. Other types of projects may just have a department head and a financial controller or CFO. In some cases, again depending on the size of the project, the chief executive officer (CEO) as well as the human resource (HR) director may also be involved in approving the project.

Depending on the size of the organization, the approver may not always be at the executive level, but will most likely include, at a minimum, the appropriate department head and a designated director-level person from finance. In some cases project approval will come from independent signatures that flow from one approver to the next. In other cases, an executive committee is formed that has the sole purpose of approving projects and overseeing them for success. In any case, project approval typically comes from an executive level within the organization. The higher the proposed project budget, the higher up in the organization you must go for approval.

Now depending on which department you work for, your access to this level of approver may be limited. But don't panic, all is not lost. The fact is that because of pressures of time and the scope of their job many people at the executive level rely on information from others within the organization for making decisions. These people, called influencers or “go to” people, have proven expertise and knowledge, and they enjoy

the respect of people at the executive level. Most of the time, go-to people have informal access to executives and are able to provide them with a sense of what is really happening in the organization and/or the detailed knowledge for making a decision.

Every executive has such individuals, whether a formal right-hand man or woman or informal confidant. Having such individuals is a must in order for executives to survive the day in and day out climate of normal business operations. Therefore these go-to people are the ones that can make or break your business case approval, because they are the ones that offer the most influence to the decisions made at the top. The good news is that getting to these people may be a lot easier for you to state your case. The bad news is that each of these individuals may come with different agendas that may not align with the objectives of your project and therefore may produce a negative outcome for getting your project approved.

Each agenda offers a potential road block that must be navigated around in order for you to be successful. Say, for example, you are proposing to implement a software application that is in conflict with an existing application being used by Charlie, a go-to person for the CIO. Do you think Charlie will endorse your project or will he put up a road block for getting your project approved? In another example, let's look at Sally, a supervisor for the design team within the research & development (R&D) department and go-to person for the R&D department head. Assume your proposed project requires two critical resources from Sally's design team at a time she already has scheduled to deliver her new product designs to a key client. Do you think Sally will endorse your project or will she become a road block for getting your project approved?

These are two simple but common examples of road blocks that are caused by different agendas that are critical to the go-to person. The idea here is that it is up to you to identify these different agendas so that the road blocks can be removed or negotiated for the purpose of getting your project endorsed. In the case of Charlie, perhaps you can meet with him

before your business case is submitted to show him how your new software application can help him and his team save time and effort and that it does not really conflict with his existing application. Or in the case of Sally, perhaps you can agree on a time frame for utilizing her key resources that will not conflict with her schedules. Whatever the solution, the key point is that you need to gain access to the go-to people and (1) inform them of your intention and (2) obtain buy-in from them so that you can get their support for your project. You will be surprised how willing people are to work with you if you do your homework and understand their agendas.

Assume that everyone in a political climate works on the basis of “what’s in it for me.” Incorporating this assumption into your business case will make it much easier to win over the critical go-to people and result in an easier path for getting your project approved at the top. The key is that you are able to articulate the “what’s in it for them” and leverage the influence the go-to people have with the critical approvers at the executive level.

Influencer #2: Selection Criteria

Beyond the politics, the key variable for getting a project approved is meeting the selection criteria that have been established by your company or project approval committee. Sometimes these criteria are formally spelled out; other times they are ambiguous and not well known or understood. In either case, for a project to be approved it will need to pass a number of criteria by the authorities at large. Most criteria are based on fact and logic, but of course there may always be the case of a project being approved or not approved “just because.”

Having a project approved or not approved “just because” falls in the category of politics and hidden agendas that we discussed in the Influencer #1 section. In any event, I do not want to spend time talking about the “just because” selection criterion due to the fact that it is ambiguous and not based on facts and logic that can be navigated for getting your project approved. What I do want to discuss are the selection crite-

ria that are most common in organizations today and that, if met, will help ensure that your project will be approved for implementation. These criteria, which will be discussed in detail, are:

- 2-1. Project costs
- 2-2. Financial return
- 2-3. Strategic fit
- 2-4. Project risk
- 2-5. Soft benefits
- 2-6. Schedule
- 2-7. Resources
- 2-8. Location

Selection Criterion 2-1: Project Costs

The first selection criterion for your project are typically the project costs. Because many times project approvers state up front, “Great idea, but what is it going to cost me?” this is an area you need to focus on in order to provide sound justification. The best way to define your project costs is to first identify the project cost categories. Project cost categories are buckets of dollars where the project costs will be incurred. For example, cost categories can be software licenses, travel and expenses, training, building materials, labor, or external consulting, to name a few. Cost categories are not meant to be detailed accounting codes as found in a cash flow statement, but rather a grouping of major categories where the costs will be coming from. Be sure to identify all of the categories that you think will incur costs during the entire project life cycle.

After the cost categories have been defined, the next step is to determine the estimated cost for each of the categories (see Figure 1-9). To determine the cost estimates, you may need to obtain quotes from vendors and internal accountants as well as perform a rough analysis yourself. Each cost category should show the estimated costs to be incurred in each time period throughout the project life cycle. This time period can

FIGURE 1 - 9 . Project cost estimates.

From the specified cost categories, project cost estimates should be determined for the financial project life.

Illustration

Cost Categories	2005	2006	2007	2008	2009	2010	Total Cost
Hardware	\$1,000,000	\$500,000	\$500,000	\$500,000			\$2,500,000
Software License	\$50,000	\$50,000	\$50,000	\$50,000			\$200,000
Travel & Expenses	\$20,000	\$20,000	\$20,000	\$20,000			\$80,000
Training	\$200,000	\$200,000	\$200,000	\$100,000	\$100,000	\$100,000	\$900,000
Internal Resources	\$300,000						\$300,000
External Resources	\$300,000						\$300,000
							\$4,280,000

Project Cost Assumptions:

Describe details of the cost estimates including any assumptions for achieving the cost estimates.

Example: Assumes 2 servers required for volume of data; 200 user licenses annually for 4 years; internal and external resources required for project implementation in year 1 only.

be in years if your project is long term, or months, or even weeks. Be sure to include time periods beyond the project implementation if costs will be recurring after the project has been implemented, as would be the case with software maintenance or estimated sales commissions.

Once the estimates have been determined, any assumption about the costs should also be documented. For instance, you may be assuming that you will require 100 hours of outside consulting support, or that the number of software users will be thirty, or that travel will only include three trips to Philadelphia. Again, it is important to document any assumptions that you have relative to your cost estimates so that they can be reviewed and validated by the project approvers. By fully documenting the estimated costs and assumptions, you will then be able to provide a total cost estimate for the entire project. The total cost estimate can then be used to determine the financial return for your project.

Selection Criterion 2-2: Financial Return

Perhaps the most popular criterion for approving a project is the financial return. This is perhaps the one area that most executives pay the most attention. It is also the area that most people think of when they define a business case. Financial return can be measured in many different ways, however, the most important element is to show how much return you get for the money you invest in a given project.

Determining the financial return follows a similar process for determining the cost estimates. The first step is to define the financial return categories. These return categories should be any area that estimated savings or business impacts are to be booked. The financial return can be either cost savings (see Figure 1-10) or increases in efficiency or sales revenue. Examples are savings from reductions of billing errors, reduction in customer complaints, and inventory, or increased revenue due to higher product sales or greater market penetration.

Similar to the cost estimates, the financial return should be estimated in time periods. The time periods should be the same as in the cost estimates, so if the time periods are monthly in the cost estimates they

FIGURE 1-10. Financial return.

From the specified financial impact categories, savings estimates should be determined for the financial project life.

Financial Impact Categories	2005	2006	2007	2008	2009	2010	2011	Total Savings
Inventory Savings	\$500,000	\$2,300,000	\$2,300,000	\$2,300,000	\$2,300,000	\$2,300,000	\$2,300,000	\$14,300,000
Distribution & Logistics	\$100,000	\$300,000	\$400,000	\$400,000	\$400,000	\$400,000	\$400,000	\$2,400,000
Customer Complaint Reduction	\$30,000	\$40,000	\$60,000	\$60,000	\$120,000	\$120,000	\$120,000	\$550,000
Reduced Billing Errors	\$30,000	\$40,000	\$40,000	\$60,000	\$80,000	\$80,000	\$80,000	\$410,000
								\$17,660,000

ROI: 96%IRR: 40.3%

Discounted Payback (yrs): 3.1NPV: \$2.7 million

Financial Return Assumptions:

Describe details to the financial return estimates including any assumptions required for the savings estimates to be achieved. **Example:** Assumes annual inventory savings of \$2.3M in year 2; customer complaint savings to increase annually based on increased call volume; billing error savings to increase annually based on increased invoices sent per year.

should also be monthly in the financial return. Once the financial return is determined for each category, the financial assumptions should be documented, such as reducing customer complaints based on a call volume of 1,500 calls per month, or reducing billing errors in proportion of the total amount of invoices per year. Documentation of the assumptions will again provide a means of validation by project approvers.

After you have determined the savings or revenue increases for the project life and have defined the project costs, you are then ready to begin calculating the benchmark metrics for financial return. The typical measures for financial return include:

Return on Investment, or ROI (see Figure 1-11)

Net Present Value, or NPV (see Figure 1-12)

Payback Period (see Figure 1-13)

Internal Rate of Return, or IRR (see Figure 1-14)

All of these measures show the return you get on your money based on the cost of the project versus the return on your investment. However, many of the financial return metrics offer pros and cons of presenting how good the return on your investment really is.

For instance, ROI, which is the most common measurement because of its simplicity, shows the magnitude of an investment based on a profit/cost analysis. Basically, this means that the higher the ROI number, the better the investment or financial return. But is this really the case? The down side to ROI is that even though the ROI number may be high, it may not always be better. For example, which is better, a 124 percent ROI on a \$10,000 investment or a 60 percent ROI on a \$300,000 investment? Without much thought you may say, "Of course, it's the investment with a 124 percent ROI." But if you do the math, 124 percent return from a \$10,000 investment is only \$12,400. On the other hand, a 60 percent return from a \$300,000 investment is \$180,000. Which would you rather have, \$180,000 or \$12,400? In this case the investment with

FIGURE 1 - 11 . Financial return: return on investment (ROI).

■ ROI (Return on Investment):

- ROI is the most popular and most simple measurement to determine the financial return from an initiative that incurs cost.
- It can be calculated several ways within an industry. As such, it is not always the best measurement.
- It does not show magnitude of investment (e.g., which is better: 124% ROI on a \$10,000 project or 60% ROI on a \$300,000 project?).

Example calculation:

- $ROI = (\text{savings} - \text{cost}) / \text{cost} \times 100$. **This is simple profit / cost analysis.**
- $ROI = \text{NPV of savings} / \text{initial investment} \times 100$. **More precise with cash flows.**

FIGURE 1-12. Financial return: net present value (NPV).

■ NPV (Net Present Value):

- NPV is the present value of an investment's future net cash flows minus the initial investment. Generally, if the NPV of an investment is positive, the investment should be made.
- It takes into account discount rates.
- It is a standard financial calculation that does not vary within industry.

Example calculation:

$$NPV = \frac{CF_1}{(1+r)^1} + \frac{CF_2}{(1+r)^2} + \frac{CF_3}{(1+r)^3} + \frac{CF_n}{(1+r)^n}$$

CF = The net cash flow for each year that the NPV is to be applied

r = The discount rate or investment yield rate

n = The total number of years for which the NPV calculation is to be applied

FIGURE 1 - 13 . Financial return: payback period.

■ Payback Period:

- The payback period is the length of time required to recover an initial investment through cash flows generated from the investment. It is simply the amount of time taken to break even on an investment.
- The payback period provides some visibility as to the level of profitability of the investment in relation to time.
- The shorter the time period, the better the investment opportunity.
- It is a standard financial calculation that does not vary within industry.

Example Calculation:

$$\text{Payback Period} = \frac{\text{Initial Investment}}{(\text{NPV of Savings} / \text{Years}_n)}$$

n = The total number of years for which the NPV calculation is to be applied

FIGURE 1 - 14 . Financial return: internal rate of return (IRR).

■ IRR (Internal Rate of Return):

- IRR is the rate at which the present value of a series of investments is equal to the present value of the returns on those investments. Often called Average Annual Total Return.
- The IRR represents the inherent discount rate or investment yield rate produced by the project.
- It takes into account money earned by the investment (interest, dividends, capital gains distributions).
- IRR is similar to the NPV calculation with the exception that the equation is solved for the variable r .

Example Calculation:

$$\text{Initial Investment} = \frac{CF_1}{(1+r)^1} + \frac{CF_2}{(1+r)^2} + \frac{CF_3}{(1+r)^3} + \frac{CF_n}{(1+r)^n}$$

CF = The net cash flow for each year that the IRR is to be applied

r = The internal rate of return

n = The total number of years for which the IRR calculation is to be applied

the lower ROI may be a better option. This is the downside of the ROI measure, which is why you may need to look at other financial return measures.

Another measure is the payback period for your investment. Simply put, the payback period is the length of time needed to recover your initial investment, which is another way of saying, the length of time to break even on an investment. The payback period provides some visibility as to the level of profitability of the investment in relation to time. The shorter the time period, the better the investment opportunity. This type of measure is pretty standard in industry and provides a solid perspective of when an investment will provide a return.

Both of these measures, used in conjunction, are perhaps the most common financial return measures used in industry. You can see, however, that one used without the other may not provide the best view for determining the financial return.

In addition, financial return as the only selection criterion may also not be the best way to determine whether a project should be approved. Remember our discussion on project business value and the benefits the project can bring to the business? Looking beyond financial measures is hard for many executives; however, it may be the difference when assessing the ability of a project to be successful or not. Consideration to how a project fits into the overall company strategy, project risk, required investment, soft benefits, timeline for implementation, and location are all other considerations to be taken into account.

Selection Criterion 2-3: Strategic Fit

Strategic fit for your project is quite simply the alignment of your project goals to the overall goals of the company. For instance, say the overall company strategy is to manufacture low-cost products for customers that are environmentally friendly. On the other hand, let's say that the goal of your project is to reduce costs of products by introducing new materials that are not environmentally friendly. The result is that the strategy of

your project does not match the strategy of your company. Although your project will be producing low-cost products, it will be doing it in a way that does not fit with the company strategy. In this case, the strategic fit for your project is low. This may have an overall effect on your project being approved, especially in comparison to other projects that may be more strategically aligned.

Some companies perform a detailed strategic fit analysis using a weighting system for your project goals. This is especially the case with companies that focus on the research and development of products. The lesson here is that while putting together your project proposal, you as project manager should look beyond the tactical end of the execution and look at your project from the perspective of strategy. Ask yourself whether your project is strategically aligned with the company's strategy. If it is, you will have a much better chance of getting your project approved.

Selection Criterion 2-4: Project Risk

Project risk is an area within the business case that helps build credibility for getting project approval. Risk provides a foundation for leveling the perception of risk among management and the project team. What may be risky to you may not be risky to another person. By performing a risk assessment based on facts and not feelings helps establish a common platform for determining the true risk of a project and therefore enhances the overall probability of success. From a logical standpoint, if something has a low probability of success or involves very high risk, people tend not to want to engage in that activity. Having a common way to assess risk is then key to really understanding where your project sits in regards to the overall risk to the organization or the probability of achieving success.

Going through the exercise of a risk assessment also serves as a foundation for developing a *risk mitigation plan*. This type of plan puts in place actions that can be taken to help avoid the risk identified for the project. Having a plan to mitigate risk is, in many cases, just as or more important