# A!
Aalto University
School of Business

Project Selection and Initiation

Matti Rossi
Department of Information and Service Management
School of Business, Aalto University

Learning objectives

- **Describe the importance of aligning projects with business strategy, the strategic planning process**
- **Explain the planning process for project selection**
- **Discuss the program selection process, and distinguish the differences between programs and projects**

A! **Aalto University**
School of Business

2

The project process

Initiate & Select

Plan

Monitor & Control

Implement
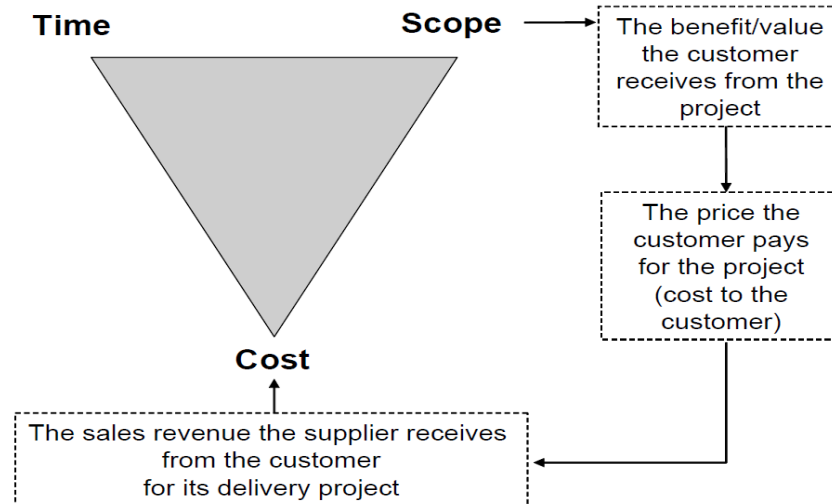
Close
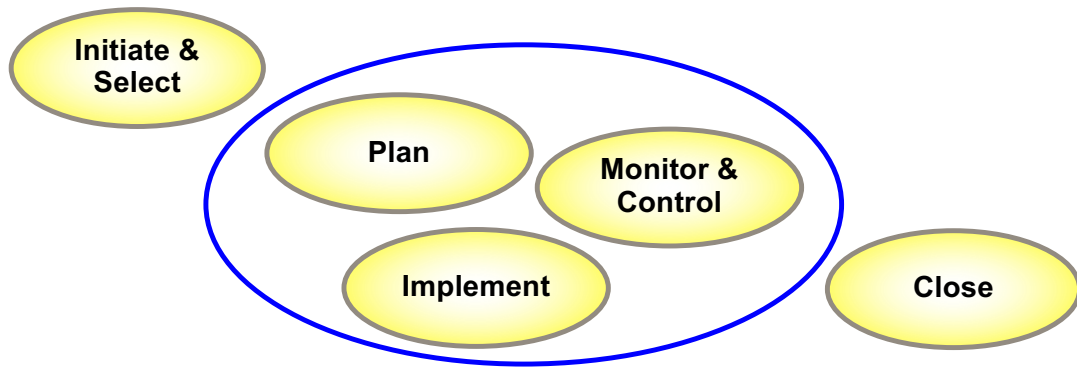
•3

Aligning Project with Business Strategy

Most organizations cannot undertake most of the potential projects identified because of resource limitations and other constrains

Special challenges:

- Lack of strategic fit with mission
- Lack of stakeholder support
- Unclear responsibilities (for risks, outcomes, roles…)
- Unclear or unrealistic time frame, budget, scope
- Unclear requirements

(Mod. From Project Selection Criteria: How to Play it Right, 2011 Joni Seeber)

A! Aalto University
School of Business

Project objectives are interrelated – How to manage projects?

Time

Scope → The benefit/value the customer receives from the project

↓

The price the customer pays for the project (cost to the customer)

Cost

The sales revenue the supplier receives from the customer for its delivery project ←

(Artto, Martinsuo, Kujala, 2011. Project business. p. 25)

A Pyramid for the Project Planning Process

Strategic Planning → Senior executives develop the strategic plan

Business Area Analysis → Directors and department managers analyze needs in their areas

Project Planning → Various managers and stakeholders propose projects

Resource Allocation → Authorized managers allocate resources to selected projects

A! Aalto University
School of Business

Methods for Selecting Projects

- Focus on competitive strategy and broad organizational needs
- Perform net present value analysis or other financial projections
- Use a weighted scoring model
- Implement a balanced scorecard
- Address problems, opportunities, and directives
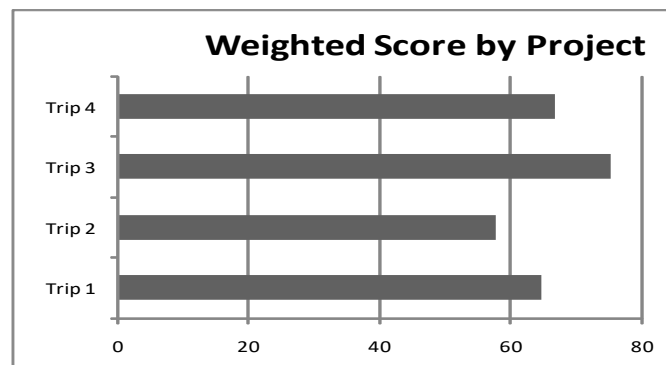- Consider project time frame
- Consider project priority

A! Aalto University
School of Business

A Net Present Value Example

	A	B	C	D	E	F	G
1	Discount rate	10%					
2							
3	**PROJECT 1**	YEAR 1	YEAR 2	YEAR 3	YEAR 4	YEAR 5	TOTAL
4	Benefits	$0	$2,000	$3,000	$4,000	$5,000	$14,000
5	Costs	$5,000	$1,000	$1,000	$1,000	$1,000	$9,000
6	Cash flow	($5,000)	$1,000	$2,000	$3,000	$4,000	$5,000
7	NPV	$2,316					
8		Formula =npv(b1,b6:f6)					
9							
10	**PROJECT 2**	YEAR 1	YEAR 2	YEAR 3	YEAR 4	YEAR 5	TOTAL
11	Benefits	$1,000	$2,000	$4,000	$4,000	$4,000	$15,000
12	Costs	$2,000	$2,000	$2,000	$2,000	$2,000	$10,000
13	Cash flow	($1,000)	$0	$2,000	$2,000	$2,000	$5,000
14	NPV	$3,201					
15		Formula =npv(b1,b13:f13)					
16							
17							

Note that totals are equal, but NPVs are not because of the time value of money

Schwalbe, Information Technology Project Management, Sixth Edition, 2010

A Sample Weighted Scoring Model

Criteria	Weight	Trip 1	Trip 2	Trip 3	Trip 4
Total cost of the trip	25%	60	80	90	20
Probability of good weather	30%	80	60	90	70
Fun activities nearby	15%	70	30	50	90
Recommendations	30%	50	50	60	90
Weighted Project Scores	**100%**	**64.5**	**57.5**	**75**	**66.5**

Weighted Score by Project

A Balanced Scorecard Example

Methods for selecting projects: address problems, opportunities and directives

- **Problems are undesirable situations that prevent an organization from achieving its goals - can be current or anticipated**
- **Opportunities are chances to improve the organization**
- **Directives are new requirements imposed by management, government, or some external influence**

Aalto University
School of Business

Program selection

- Program is a group of projects managed in a coordinated way to obtain benefits and control not available from managing them individually
- After deciding which projects to pursue, organizations need to decide if it is advantageous to manage several projects together as part of a program
- There might already be a program that a new project would logically fall under, or the organization might initiate a program and then approve projects for it

Aalto University
School of Business

Approaches for Creating a Project Portfolio

The course textbook illustrates an approach for project portfolio management.

Sections of the portfolio are broken down to improve the management of projects in each sector.

The IT projects are broken down into three categories:

• Venture: Projects that help transform the business

• Growth: Projects that help increase revenues

• Core: Projects that help run the business

• See more: https://www.pmi.org/learning/library/project-portfolio-management-limited-resources-6948

A! Aalto University
School of Business

Decision-making criteria used by customers

Criterion	Specific description
Price-benefit ratio	• Total price, terms of payment, and what is included in the price of the bid (scope) • Risk associated with the price (Is it a fixed price for complete delivery? How extensively has the price risk been transferred to the customer?) • Cost of maintenance and other lifecycle costs • The benefit for our (i.e. the customer's) business that we will receive from the supplier's solution
Credibility of project supplier	• Supplier's experience • References • Annual sales revenue and financial standing of the supplier • Length and features of guarantee period, and local support

(Artto, Martinsuo, Kujala, 2011. Project business. p. 66)

…criteria used by customers

Criterion	Specific description
Technical solutions	• Are there risks associated with the technical solutions? • How long are the products supported? • What is the development potential of the offered product? Is it a standard solution that the supplier will develop and update in the future, for example?
Project execution	• How much involvement is required from us, the customer (e.g. collecting and verifying preliminary information)? • Delivery time • Sufficiency of resources named by the supplier, and their competences and availability

(Artto, Martinsuo, Kujala, 2011. Project business. p. 67)

•15

A Summary of Project Selection

An organization's overall business strategy should guide the project selection process and management of those projects

The main criteria for program selection are the coordination and benefits available by grouping projects

The goal of project portfolio management is to help maximize business value to ensure enterprise success

A! Aalto University
School of Business

Initiating Projects

Linked with Chapter 3 in Schwalbe

Aalto University
School of Business

How Top Management Can Help Project Managers Succeed

Provide adequate resources

Approve unique project needs in a timely manner

Encourage cooperation from people in other parts of the organization and deal with political issues

Mentor and coach them on leadership issues

Develop and enforce organizational standards

Support a project management office (PMO)

Aalto University
School of Business

19

Initiating Process Summary

GO
Project approved after formal project selection process

Pre-initiating

Initiating
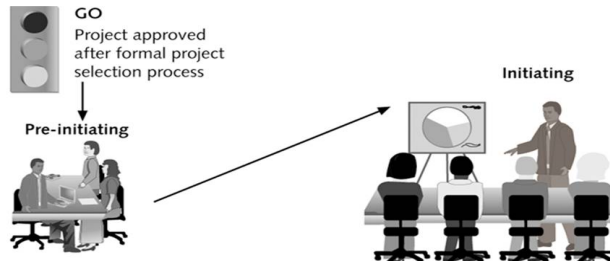
Senior management work together to:

- Determine scope, time, and cost constraints
- Identify the project sponsor
- Select the project manager
- Develop a business case for the project
- Review processes/expectations
- Determine if the project should be divided into two or more smaller projects

Project managers lead efforts to:

- Identify and understand project stakeholders
- Create the project charter
- Hold a kick-off meeting

Pre-initiating Tasks

STEP 1: Create Business Case
STEP 2: Make Feasibility Study
STEP 3: Develop Project Charter
STEP 4: Assign Project Management Team
STEP 5: Perform Review

Aalto University
School of Business

Business Case for A Project

Typical contents:
- Introduction/Background
- Business Objective
- Current Situation and Problem/Opportunity Statement
- Critical Assumptions and Constraints
- Analysis of Options and Recommendation
- Preliminary Project Requirements
- Budget Estimate and Financial Analysis
- Schedule Estimate
- Potential Risks
- Exhibits

A! Aalto University
School of Business

Initiating Tasks

Identifying and understanding project stakeholders
Creating the project charter
Holding a kick-off meeting

A! Aalto University
School of Business

Initiating tasks: Identifying and Understanding Project Stakeholders

Project stakeholders are the people involved in or affected by project activities

Internal stakeholders:

• the project sponsor, project team, support staff, and internal customers for the project.

• top management, other functional managers, and other project managers

External stakeholders:

• project's customers (if they are external to the organization),

• competitors, suppliers, and other external groups that are potentially involved in or affected by the project

• government officials and concerned citizens.

A! Aalto University
School of Business

Sample Stakeholder Register

Name	Position	Internal/ External	Project Role	Contact Information
Mike Sundby	VP of HR	Internal	Project champion	msundy@globalconstruction.com
Lucy Camerena	Training Director	Internal	Project sponsor	lcamerena@globalconstruction.com
Ron Ryan	Senior HR staff member	Internal	Led the Phase I project	rryan@globalconstruction.com

Sample Stakeholder Management Strategy

Name	Level of Interest	Level of Influence	Potential Management Strategies
Mike Sundby	High	High	Mike is very outgoing and visionary. Great traits for a project champion. He is concerned about financials and has an MBA. Keep him informed and ask for his advice as needed.
Lucy Camerena	High	High	Lucy has a Ph.D. in education and knows training at this company. She is very professional and easy to work with, but she can stretch out conversations. Make sure she reviews important work before showing it to other managers.
Ron Ryan	Medium	Medium	Ron led the Phase I project and is upset that he was not asked to lead this Phase II project. He's been with the company over 20 years and can be a good resource, but he could also sabotage the project. Ask Lucy to talk to him to avoid problems. Perhaps give him a small consulting role on the project.

Initiating tasks: Creating a Project Charter

A project charter is a document that formally recognizes the existence of a project and provides a summary of the project's objectives and management

It authorizes the project manager to use organizational resources to complete the project

Ideally, the project manager will play a major role in developing the project charter

Instead of project charters, some organizations initiate projects using a simple letter of agreement or formal contracts

A crucial part of the project charter is the sign-off section

A! Aalto University
School of Business

Contents of a Project Charter

The project's title and date of authorization
The project manager's name and contact information
A summary of:
- schedule or timeline, a summary milestone schedule
- the project's estimated cost and budget allocation

A brief description of the project objectives
- Project success criteria, including project approval requirements and who signs off on the project
- A summary of the planned approach for managing the project, which should describe stakeholder needs and expectations, important assumptions, and constraints, and refer to related documents

A roles and responsibilities matrix

A! **Aalto University**
School of Business

Sample Project Charter

Project Title: Just-In-Time Training Project
Project Start Date: July 1   **Projected Finish Date:** June 30 (one year later)

Budget Information: The firm has allocated $1,000,000 for this project. Approximately half of these costs will be for internal labor, while the other half will be for outsourced labor and training programs.

Project Manager: Kristin Maur, (610) 752-4896, kmaur@globalconstruction.com

Project Objectives: Develop a new training program that provides just-in-time training to employees on key topics, including supplier management, negotiating skills, project management, and software applications (spreadsheets and Web development). Reduce the training cost per employee by 10%, or $100/employee/year. Develop an approach for measuring productivity improvements from this approach to training on an annual basis.

Success Criteria: This project will be successful if it reduces training cost per employee by 10% or $100/employee/year. It should also be completed on time, be run professionally, and meet all of the requirements. The project sponsor will determine if the project is a success or not.

Approach:
- Terminate all internal training courses except the Six Sigma training once new courses are developed
- Communicate to all employees the plans to improve internal training and let them know that tuition reimbursement will continue as is.
- Work closely with internal managers and employees to determine the best approaches for providing training in supplier management, negotiating skills, project management, and software applications.
- Research existing training and work with outside experts to develop several alternatives for providing each training topic.
- Develop and implement new training.
- Take advantage of new training approaches and technologies and encourage employees to take some training during non-work hours.
- Encourage experts within the company to mentor other workers on current job duties.
- Determine a way to measure the effectiveness of the training and its impact on productivity on an annual basis.

Sample Project Charter (continued)

Roles and Responsibilities:

Name and Signature	Role	Position	Contact Information
Mike Sundby *Mike Sundby*	Project Champion	VP of HR	msundby@ globalconstruction.com
Lucy Camerena *Lucy Camerena*	Project Sponsor	Training Director	lcamerena@ globalconstruction.com
Kristin Maur *Kristin Maur*	Project Manager	Project Manager	kmaur@ globalconstruction.com
Julia Portman *Julia Portman*	Steering Committee Member	VP of IT	jportman@ globalconstruction.com
Tim Nelson *Tim Nelson*	Steering Committee Member	Supplier Management Director	tnelson@ globalconstruction.com
Mohamed Abdul *Mohamed Abdul*	Team Member	Senior programmer/ analyst	mabdul@ globalconstruction.com
Kim Johnson *Kim Johnson*	Team Member	Curriculum designer	kjohnson@ globalconstruction.com
Etc.			

Comments: (Handwritten or typed comments from above stakeholders, if applicable)

"I am concerned about people's reactions to cancelling most internal training and totally changing most training classes. I also hate to terminate some contracts with local training firms we've used for several years. We should try to get some of them involved in this project." Lucy

"I want to review all of the information related to providing the supplier management training. We need to make something available quickly." Tim

---

Holding a Project Kick-off Meeting

Experienced project managers know that it is crucial to get projects off to a great start

A kick-off meeting is to review the goals of the project, and discuss future plans

Often used to get support for a project and clarify roles and responsibilities

The project champion should speak first and introduce the project sponsor and project manager

Often a fair amount of work is done to prepare for the meeting

Best if it can be held face-to-face

A! **Aalto University**
School of Business

Sample Kick-Off Meeting Agenda

Just-In-Time Training Project, Kick-off Meeting
July 16
Meeting Objective: Get the project off to an effective start by introducing key stakeholders, reviewing project goals, and discussing future plans
Agenda:
- Introductions of attendees
- Review of the project background
- Review of project-related documents (i.e., business case, project charter)
- Discussion of project organizational structure
- Discussion of project scope, time, and cost goals
- Discussion of other important topics
- List of action items from meeting

Action Item	Assigned To	Due Date

Lecture Summary

Effective project portfolio management ensures that right projects are initiated in right time

The five project management process groups are initiating, planning, executing, monitoring and controlling, and closing.

The main tasks normally involved in project initiation are the following:

- Identifying and understanding project stakeholders

- Creating the project charter

- Holding a kick-off meeting

Aalto University
School of Business