

From Project Management to Business Objectives

How to align the project goals to the business strategy

By Luca Cavone and Alessandro Savioli

Summary

Many organizations do not apply structured Project Management processes; some apply them, but focus only on the project operational targets (Quality, Cost, Time). Others apply them but the results are not aligned or with a large gap compared to business goals. The organizations that are able to support and develop their growth successfully act on both levers, define the best practices for managing projects and at the same time correlate these to the business strategy.

For Project Driven Organizations, the selection of the right mix of initiatives in their portfolio should take into account the strategy, in qualitative and measurable targets. What is most important is to have a structured approach; therefore an appropriate system of indicators is required to measure the correlation of the Key Performance Indicators (KPIs) for each single project with the business results of the organization.

This paper presents a new approach together with an implementation case, showing how it is possible to integrate the two dimensions, with respect to:

- How to outline and deployment the strategic objectives;
- How to check the coherence of the projects, setting priorities in line with the corporate objectives;
- How to design and implement KPIs and a measurement system allowing linkage of the goals of each project with the company's operating results

Introduction

In our daily activity working as consultants we have the chance to support companies operating in various industries, including aerospace, banking, food, machinery and many others. Different Industries and of course different contexts: manufacturing, services but also Project Driven Enterprises.

Typically when we deal with the latter, the scope of our intervention covers Project & Portfolio Management (PPM) topics. In some cases we provide project management methodological support to customer projects, in others designing and implementing the overall governance of the company portfolio, rather than in the management of resources within a business area.

One of the key questions we have faced over time is how these companies manage the coordination between the project and the strategic dimensions, especially when it comes to the measurement of the relevant performance.

Performance management enables the achievement of objectives in an efficient and effective way. This can be focused on the performance of an organization, a department, an employee, or even on the processes of project management. There is a clear and immediate correlation between the use of performance management and better business results.

In Project Driven Enterprises the management of projects within the company portfolio should be made considering the strategy and its quantitative objectives. It's important to establish a system to correlate the two dimensions, leveraging on appropriate organizational solutions.

In other business environments, such as manufacturing companies, we have often done projects in this direction, deploying company strategy into improvement projects. In such cases we made reference to a specific methodology, *Hoshin Kanri* that allows integration of the overall management of the strategic, tactic and operative dimensions.

So here we came easily to think that the same approach could be adapted for Project Driven Enterprises considering customer projects instead of improvement projects.

Below we will briefly introduce the traditional methodology before describing how we adapted it for Project Driven Enterprises. To ease the reading we will make reference to an implementation case.

About Hoshin Kanri

The Japanese term "**hoshin kanri**" (方針 管理) usually translated as **policy deployment**, literally means "**the direction where to go**" (方 "I" = direction; 針 "shin" = needle, 管理 "kanri" = management); it is a systematic process to align, communicate and implement the business strategy, focusing on the key objectives that give a competitive advantage to the organization.

In this paper we do not focus on the comprehensive description of method, more references are available in the literature [1]; rather we will try to provide some key concepts that will allow us to illustrate how it can be adapted and applied in companies working on customer projects.

Typically the methodology allows integration of three key moments in the process of planning and control of the performance:

1. How to outline and deployment the strategic objectives;
2. How to check the coherence of the projects, setting priorities in line with the corporate objectives;

3. How to design and implement KPIs and a measurement system allowing one to link the goals of each project with the company's operating results

Through these mechanisms, *hoshin kanri* lets you prioritize projects, link them to business objectives (sales, margin, cost reduction, etc.), and at the same time identify the indicators (KPIs) to quantitatively assess the obtained results (Figure 1).

Another key part of the methodology is the **activation of the people**, through the so-called "**catch-ball**" (Figure 1 and 3) process. The catch-ball allows one to take charge of the problems with the company resources at different levels within the organizational structure, to raise awareness of the objectives, business priorities and how to make an impact on these, avoiding bottlenecks on the top-management.

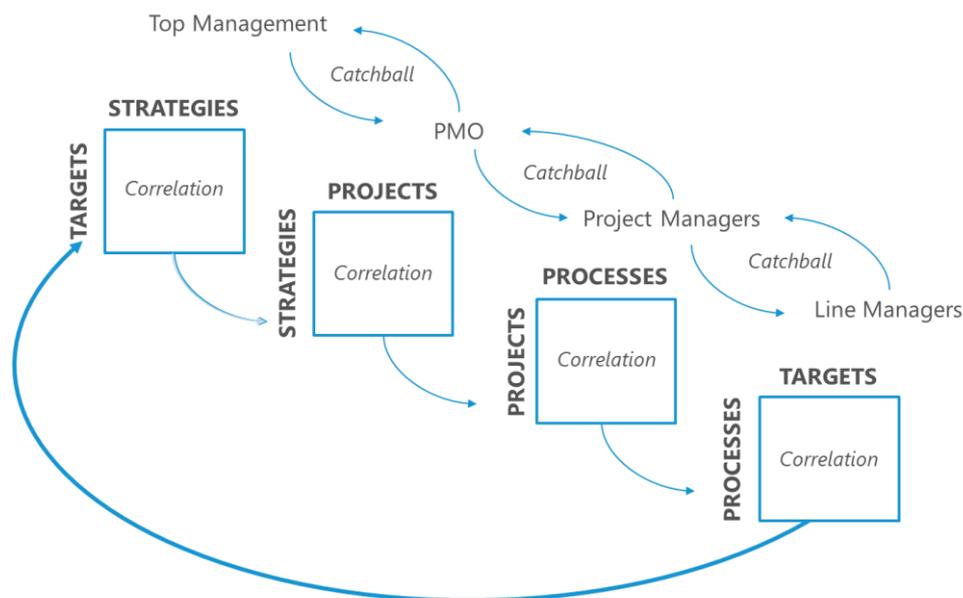


Figure 1: A3-X overall approach and roles involved

Like many Japanese methodologies, *hoshin kanri* also makes use of some support tools; we will generally refer below to A3-X, also known as X-Matrix and A3-T. The A3-X, in particular, allows one to work in an integrated way in 4 dimensions:

1. Business Targets
2. Business Strategies
3. Implementation Projects
4. Supporting Processes

These four dimensions reflect the steps to be followed while initializing the A3-X (Figure 2); the consolidation of the matrix then typically requires an iteration of the steps.

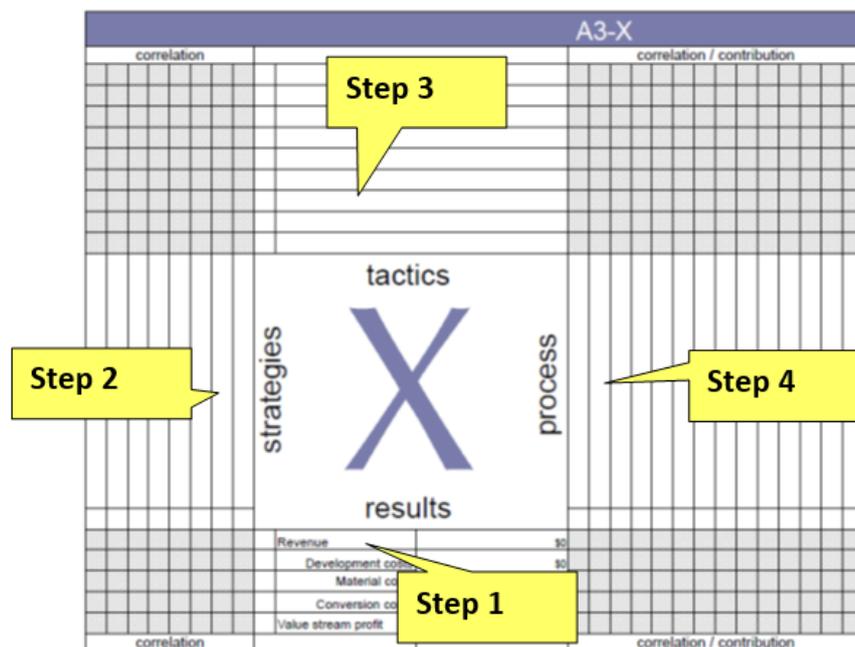


Figure 2: A3-X template (Hoshin Kanri for Lean Enterprise – Jackson)

The first step in compiling the X-Matrix is the definition of the business objectives (e.g. Revenues), the main recommendation is to express quantitative values and split them if necessary (e.g. Revenues -> Revenues by business unit) or use intermediate targets (e.g. Revenues doubled in three years -> + 33% per year).

The next step is the definition of the strategies, starting from the definition of the Vision from the Top Management and reflecting it into basic strategies (e.g. entering in new geographical areas, product differentiation, etc...). In this section it's possible to include also strategies not strictly "business" driven (i.e. bottom-up ideas for improvement in terms of the efficiency of some processes).

The third step involves the declination of the strategies into implementation projects. This is the most difficult step. With reference to the example above, if we consider the increase of revenues, this could be achieved by reducing the time-to-market of a product. Again it is appropriate to make a deployment at multiple levels and to define milestones and related projects where necessary. For each project is recommended to define a project leader and a tentative plan (high level).

The fourth step is to identify the processes impacted or affecting the projects; still on the same examples, the processes affected could be those of design, procurement, production, etc... For each process are defined indicators (operative dimension) that must be linked with those of the project (tactical dimension) and consequently to the business targets (strategic dimension).

Once all the contents have been defined for the four dimensions, it's time to establish the correlation among them. These are essential to check the consistency of the whole. It's

important to verify if all the targets are covered, or only some, if there are processes not connected to any business goal, and if all the projects are related to one of the strategies. A typical scale for evaluating the correlation is qualitative, using discrete levels: low, medium, high. Alternatively, it's possible to use numerical scale (not recommended by us, because it increases complexity).

The ultimate goal of the X-Matrix is to define objectives and priority initiatives, rather than try to find a place for all of them.

Let's see now how to run the overall process; when we introduced A3-X we also mentioned A3-T. This second tool is used during the catch-ball process, to align the team (see Figure 4 for A3-T template) and facilitate the deployment of the strategy. Also in this case the process is iterative: for each initiative there is a team in charge to manage it with respect to issues and objectives (top-down approach); the team develops analysis and make proposals (bottom-up approach); the team leader approves the actions or ask for modifications (top-down approach), the team implement the actions and presents the results to the manager to have final signoff or if/when required inputs for further rework (see Figure 3).

New focus: from Improvement Projects to Customer Projects

We are back now to the initial question: besides the traditional approach is it possible to apply *hoshin kanri* to customer projects? The answer is yes. Having already shown the general principles of the methodology, we can explain how it can be applied to the new context. Then we will focus mainly on three points: the new rules, the differences with respect to the "traditional" approach, and finally the interaction with project management processes.

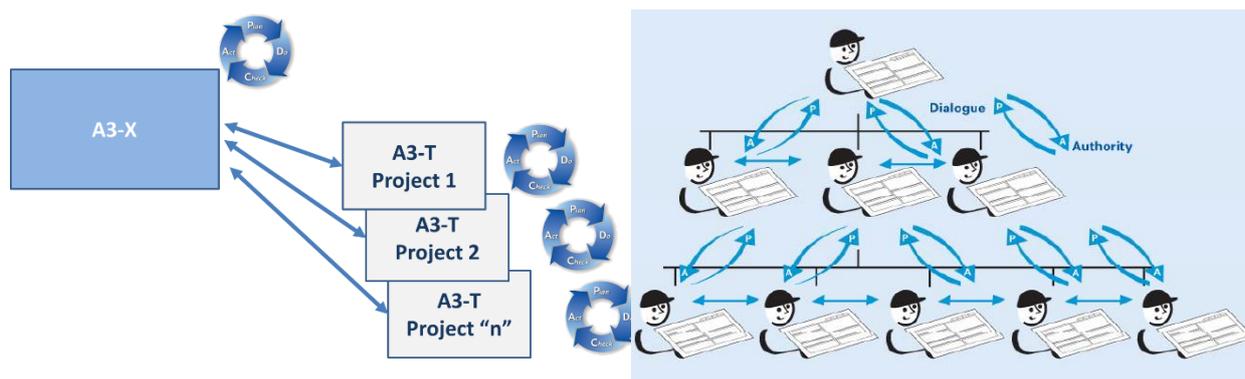


Figure 3: "catch-ball" process

We can still make reference to the sequential steps of the X-Matrix. In general, the approach remains the same, what changes are mainly the contents of some of the steps and the way of working.

With reference to the first two dimensions of the matrix (objectives and strategies), there are no major changes, as the core business and strategies remain the same in both applications.

A3-T		
Proposed team charter	Theme:	
PROBLEM STATEMENT	PROPOSED ACTION	
TARGET STATEMENT	IMPLEMENTATION PLAN	
	Action	Responsibility
ANALYSIS	CHECK AND ACT (verification and follow up)	
Date:	Reporting Unit:	

Figure 4: A3-T Template (Hoshin Kanri for Lean Enterprise – Jackson)

On the opposite it is worthwhile to discuss about step 3. Here the key point that should be noted is the scope of the projects that are to be considered in the "tactical" dimension. It is no longer as in the traditional approach about "internal" projects, rather customer projects (orders), part of the company portfolio, all those initiatives that characterize the business of the company toward its "external" customers.

In case of large companies, with a broad portfolio, it is possible to scale the approach, referring to programs instead of projects.

Once the list of projects has been defined, it's possible to verify the correlation of these with respect to the strategies in the upper left quadrant of the matrix. For each project it is evaluated with regards to its correlation with the business strategies. This is the input to activate the catch-ball process with the project leader of this initiative.

By means of A3-T the project leader, supported by his team, follows a path to identify and implement opportunities for improvements within its project and consequently to the company's business. The steps are as follow: description of the current condition, definition of the future condition, analysis, proposed actions and implementation plan.

A3-T are typically discussed in a steering committee that, in view of the context, we recommend is the PMO. Regular meetings are set up for the follow-up, monitoring and control of the progress, identification of appropriate countermeasures if necessary.

To “close” the overall path, the final step is to identify the business processes affected by or affecting along the projects (e.g. Sales, design, procurement, etc. ...) and to define their correlations with respect to them (upper right quadrant of the matrix). This fourth dimension is therefore in support of that tactic because it allows understanding of what are the areas where work is required. It’s also very useful to look at the overall scenarios correlating the projects to the processes since this allows one to detect if there are critical processes that affect multiple projects. An improvement at this level could lead to significant benefits for most of the projects.

The implementation case

Here we provide a real example where we have introduced the new approach. The reference company operates as EPC in Oil & Gas, being the main contractor for the supply of refining facilities. Within their business objectives for 2015 they set increase of revenues of 10% among the strategies, and they decided to increase company presence in key markets including the Middle East and Brazil. Considering the correlation between the increase of revenues and the expansion strategy, this is definitely high (see Figure 5).

Let’s see how this impact on the tactical dimension. For simplicity, we assume that in the period considered, the project portfolio consists of the following three main customer orders: the realization of a new refining plant in Russia, a project for revamping an existing plant in Australia, the construction of a plant in the UAE.

Among the three projects, the only one that has a high correlation with respect to the expansion strategy in the Middle East is the third one. The company has no previous experience in the area, so the results of this project will have a major impact on the future possibilities for them. The project manager of this project, supported by some key members of his team, developed an A3-T chart, in which starting from the initial condition they drafted the future goals, decided actions and outlined a plan for the implementation of these.

Based on the analysis developed by the team, it’s clear how during the execution a critical phase is the procurement. In the fourth section of the X-matrix some of the processes included are: Bidding, Engineering, Procurement, Construction, etc... With reference to the project in the UAE, there is a strong correlation with the bidding and project management processes that need to be monitored and optimized.

In this way, a coherent path was established among the four dimensions that allowed them to realize business strategies and to achieve the objectives. As we have already explained, the review process of A3-X and A3-T is iterative, to ensure that this consistency is always maintained and even improved, along the course of the entire project.

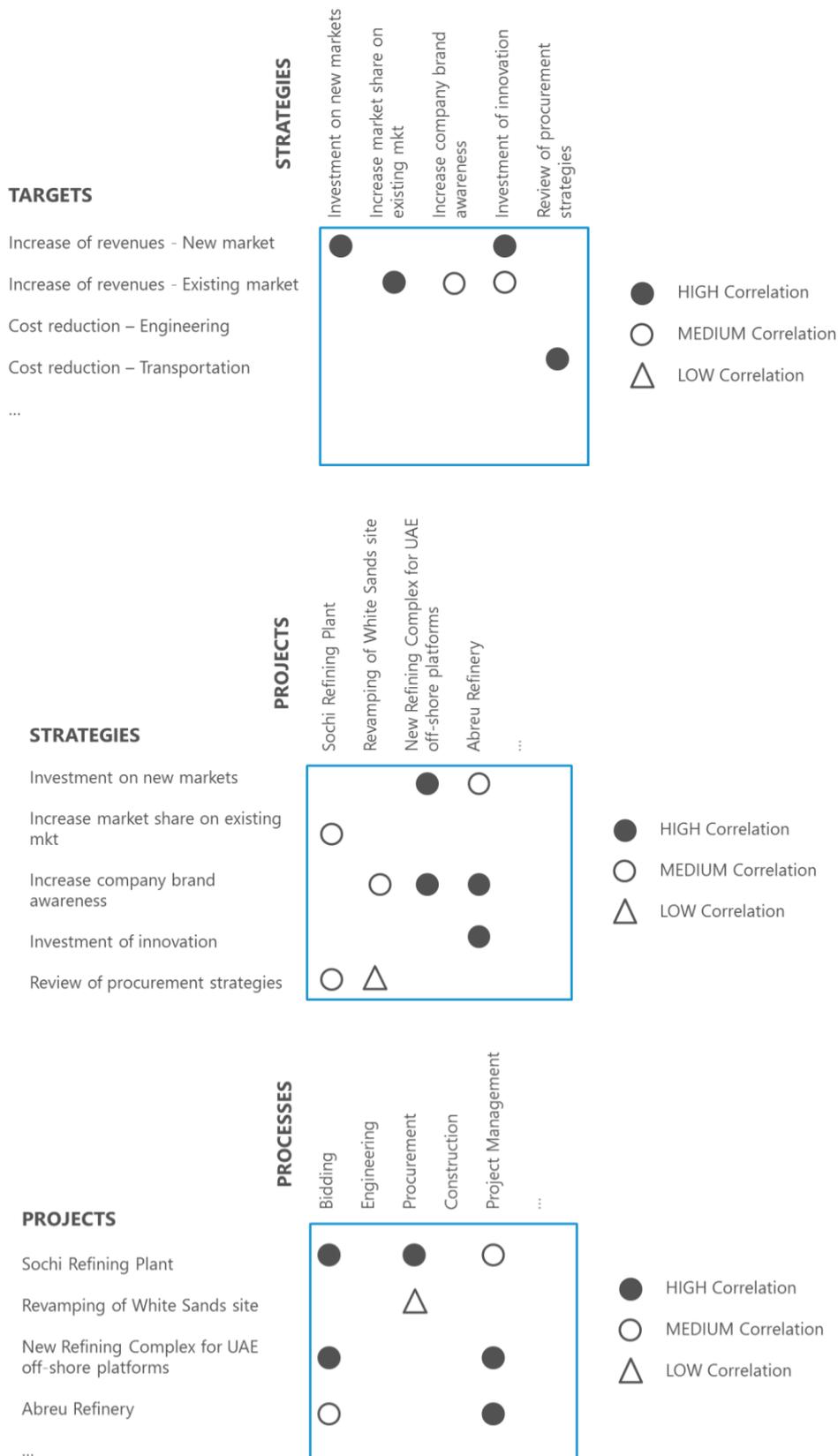


Figure 5: Example on EPC company: a - correlation between targets and strategies; b – correlation between strategies and projects; c – correlation between projects and processes

Conclusions

In this paper we have shown how *hoshin kanri* can be applied successfully in Project Driven Enterprises and the relevant benefits.

It is important to remind that the outlined method should not be intended as a path for defining the strategic planning; traditional methods are still valid for this purpose.

Rather, the proposed approach allows synthesizing and verifying the consistency between the strategic, tactical and operational dimensions, for the achievement of business objectives.

Beyond processes and tools, in our experience the key element for success is the activation of people. It's a matter of raising awareness of strategic objectives among project managers, and identifying and exploiting bottom-up opportunities arising during their projects in order to realize and improve performance.

Another point not to be underestimated is the organizational aspect. We have seen how the application of *hoshin kanri* allows increased awareness at all levels of the organization (top management, project managers, project teams, managers business processes), and the contribution that each can lead to the achievement of the company's business. This strengthens the organizational matrix model typical of these companies.

Bibliography

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