Cost-Benefit Paralysis

Prioritizing projects is straightforward when it comes down to ROI. Here's how to do it objectively when the budget's unclear.

By Ibrahim Dani, PMP

AT ONE ORGANIZATION I WORKED WITH, we were doing quite well in identifying potential projects, scoping them, and defining how these projects would be completed and what they would accomplish. What we lacked was an objective mechanism to rank these projects—especially when decision-makers were faced with shrewd sponsors pushing projects that might not necessarily warrant approval.

While projects in many companies are prioritized based on a cost-benefit analysis—particularly when there's a lack of a better framework—this approach wasn't practiced at this organization.

More Money, More Problems

For one thing, there was no comprehensive mechanism to measure the cost and benefits of project attributes and intended outcomes. Back then, a central projects group would authorize projects based on submissions by the project sponsor. And although the submissions included draft budgets, such budgets accounted for external costs only. Neither internal labor nor resourcing costs were included. Moreover, projects were funded from an organization-wide projects pool rather than the business units' annual budgets, meaning that few were rejected for lack of funds. If the sponsor could convince the central projects group that he or she needed this project, the custodians of the projects pool would finance it.

This increased the need for a project prioritization framework that didn't include monetary figures and, at the same time, one that could "objectify" subjective ratings obtained from different teams. Moreover, the framework needed to be strong enough so that the central projects group could easily push back projects supported by more influential sponsors.

Groundwork for Order

After analyzing the situation and interviewing stakeholders, I devised a three-dimensional prioritization framework that emphasizes the business value of a project and highlights the nonfinancial attributes of its achievability:

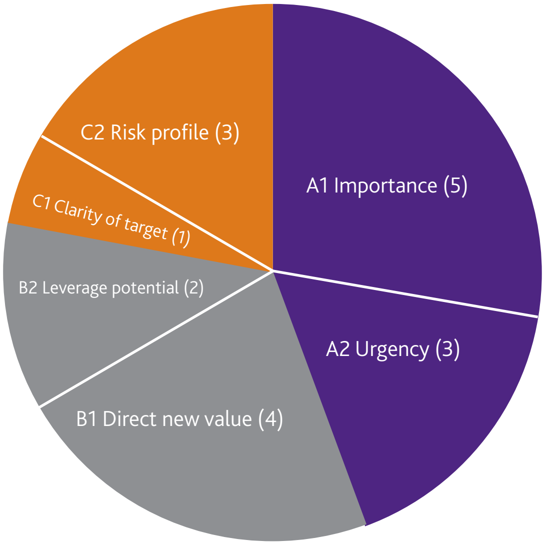
- **Dimension A—value preservation:** Reflects the criticality of the project by identifying its importance and urgency in preserving the current business processes and value.
- **Dimension B—value addition:** Highlights new-business value the project will bring into the organization.
- **Dimension C—achievability:** Indicates how well the sponsor and project team understand the purpose and expected outcome of the project. This dimension also encompasses the project's risk profile and achievability in terms of available resources and technologies necessary for execution.

Each dimension is further divided into two subdimensions with different weights to increase the granularity of the scoring and reduce the subjectivity of the final score.

The figure below outlines the dimensions of the framework and shows their respective weights in parentheses.

Prioritization Framework

A: Value preservation, B: Value addition, C: Achievability



Drilling Down

We developed a project prioritization group that, together with the project sponsor, identifies projects as either preserving the current business value (value preservation) or increasing the business value (value addition). Unless the project is expected to deliver very high value in both dimensions, the project is categorized as either a value preservation (Dimension A) or value addition (Dimension B) project. This is to prevent projects from attracting high value unnecessarily by adding scores from both dimensions. After evaluating the project against either Dimension A or B, the project is evaluated against its achievability potential (Dimension C).

Then, the project prioritization group allocates a score of 0, 1 or 2 against each sub-dimension. This score is based on information collected by interviewing stakeholders and subject matter experts. The total score of each dimension is calculated, but all dimension scores are not added up. That is, each project has an A or B score and a C score. The higher value of A or B then sorts the projects, which are in turn sorted by the value of C. So for example, a project with a score of A8/C1 has a higher priority than a project with a score of A5/C8.

This type of weighted scoring provides the central projects group with better understanding of the criticality, value and achievability of the project. (See the sidebar The Prioritization Framework for details on weights and scoring.)

If a project attracts a zero score in both A and B dimensions, it will be rejected regardless of the score of Dimension C. In other words, projects are not authorized only because they can be done—they are authorized if they need to be done.

The Bottom Line

Although most scoring is based on subjective opinion, the subjectivity of the total score is minimized by the granularity of the dimensions and the multiple scores obtained from different stakeholders. When sponsors used this prioritization framework for the first time, many of them were surprised by the scores of certain projects. And they had to reluctantly accept the result and its rationale. **PM**

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The Prioritization Framework

This is a general description of the framework. Organizations can tailor dimensions, weights and scores.

DIMENSION A: VALUE PRESERVATION

Assess the criticality of the project.

- **A1 (Weight 5):** Maintenance of business operations (i.e., importance)
  - *Consideration*: Is this project a required technical upgrade?
  - *Score*: 0—upgrade not required; 1—upgrade required; 2—upgrade critically required

- **A2 (Weight 3):** Impact of not starting the project within the next 12 months (i.e., urgency)
  - *Consideration*: Can we afford delaying this project for another year?
  - *Score*: 0—no impact, can wait; 1—medium impact; 2—high impact

DIMENSION B: VALUE CREATION

Assess the expected new value of the project's outcome.

- **B1 (Weight 4):** New value to the business
  - *Consideration*: The product or service will provide significant value for the business.
  - *Score*: 0—limited value; 1—significant value in limited area; 2—significant value added in more areas

- **B2 (Weight 2):** Leverage potential
  - *Consideration*: The product or service can be leveraged for other users and departments.
  - *Score*: 0—isolated service; 1—some leverage potential; 2—significant leverage potential

DIMENSION C: ACHIEVEMENT POTENTIAL

Assess different parameters of the project to measure the confidence level of achieving the target.

- **C1 (Weight 1):** Clarity of the target
  - *Consideration*: Assess the level of understanding of the expected outcome of the project.
  - *Score*: 0—requires significant investigation; 1—requires some investigation; 2—clear understanding

- **C2 (Weight 3):** Prospects of target achievement
  - *Considerations*: Assess the complexity of the project in terms of expected duration, required resource levels, interdependencies with other projects and teams, breadth of functionality coverage (different departments) and project risk profile.
  - *Score*: 0—very complex; 1—complex; 2—straightforward