

## Justifying the Creation of a Project Valuation Steering Committee

When it comes to comparing, ranking and selecting new projects, most C-level executives primarily make their decisions based upon non-quantitative reasoning. This rationale –sometimes subjective and generally based on gut-feeling– often is correct because executives know what is important for their business areas. However, the projects selected and investment decisions made are not always the best for their corporations; a large percentage of the capital and non-capital projects done in corporations do not succeed, or fail to create a positive impact for their company’s or institution’s bottom line.

Primary and secondary research conducted by Glomark-Governan Analysts indicates that over 40% of IT Projects fail<sup>1</sup>; and of the projects that become successful from a technical and implementation point-of-view, C-level executives can clearly explain the economic benefits realized and the resulting impact on their company’s bottom-line for only a few of them. The research from all reputable analysts organizations have found that a key reason why projects fail is because companies did not do the proper and objective analyses prior to projects’ selection and implementation.

### Balanced Comparison Criteria and Best Practices

Having a formal and defined approach or methodology for comparing projects –one which considers and creates a balance between qualitative and quantitative factors- doesn’t mean that the methodology automatically chooses the projects for the executives—not at all. The methodology and model for comparing and ranking projects is a “decision-support” tool; but in the end, the decision to invest in these projects must be made by the executives themselves; not by a tool. The model, methodology, or tool enhances the analyses and makes the comparison of possible projects more objective based on a pre-defined criteria; but again, the “yes” or “no” decision to invest in any project, should and must still rely upon the executives’ decision.

Glomark-Governan’s best practices research indicates that using “balanced comparison criteria” for comparing projects, that includes qualitative (non-economic) and quantitative (financial and economic) criteria, is the best way to objectively compare, rank and select new projects.

The following example illustrates the importance of balanced comparison criteria:

Let’s imagine that The American Red Cross is considering two projects; Project A and Project B. Both projects will result in a \$1 million reduction in fixed costs for the institution. However, Project A’s main strategic goal is to reduce operational expenses due to internal process inefficiencies; while Project B’s main strategic benefit will be saving lives during tornadoes and hurricanes.

Let’s assume that you are the CEO of the Red Cross, and have the budget to invest in only one of these two projects... -which project will you choose?

This simple example illustrates why executives need to have a defined criteria for comparing and ranking new projects based on both: quantitative factors (i.e. -ROI, NPV, Cash Impact), and qualitative factors (i.e. -alignment to strategic goals, impact on organization’s morale, etc.).

## Valuation in Project Life Cycle Management

Glomark-Governan best practices research also indicates that just defining a balanced comparison criterion and method in a Project Steering Committee is not enough—effective projects’ value assessment and realization is best when the Steering Committee is also involved throughout the different phases of the Project Life-Cycle. For example, in the Ideation stage, a high-level value assessment must be done to determine the overall magnitude of the benefits and costs of a potential project. A project should not move to the Needs Definition stage, and project team’s effort must not be wasted if a project idea doesn’t seem to be a good case for, and in the best interest of the business—economically speaking.

This holds true for the opposite end of the Project Life-Cycle as well. The Project Steering Committee must be involved in the tracking of key metrics (i.e., operational performance indicators) throughout the project, to track and measure the actual economic benefits and costs during and after the project implementation. If the key metrics are measured in the early phase of a project implementation it would be easier for a Project Steering Committee to discover those projects that might not achieve the expected economic results, and/or to determine the appropriate actions—people, process and technology related—that can put the project back on track from an economic and value realization perspective.

## Benefits

There are a multitude of benefits that can be derived from having a formal Project Valuation Steering Committee that utilizes the proposed “balanced comparison criteria” approach throughout the Project Life-Cycle. The realization of these benefits varies, depending on the approach and methodology used, along with its level of sophistication.

The following are some examples of the project management benefits:

- Objectively understand and compare the financial return of the possible new projects.
- Understand the different types of value that the projects would create for the enterprise (i.e., operational, strategic, financial).
- Better expectations of expected outcome after the project implementation (economic and non-economic expected goals).
- Ongoing proactive management of all selected projects will reduce budget overruns.
- This same ongoing management practice will also help to ensure that the original Scope of the Project does not change; unless it is economically justified.
- Track projects from an economic perspective (i.e., costs & benefits) to ensure projects’ success.

These will subsequently result in the following measurable economic benefits<sup>ii</sup>:

- Eliminate projects with no ROI before implementation: 5% to 10%.
- Increase overall ROI by selecting the best projects: 12% to 30% increase in IRR (average increase within a portfolio).
- Select the projects with the best value; resulting in an increase in the net margin: 5% to 8% (from projects).
- Consider and evaluate scenarios (i.e., the best scope and implementation strategy based on value creation)—optimizing the right scope of projects, and reducing total cost of ownership from 3% to 8%.



- Eliminate projects that are not producing the projected economic and bottom-line value during implementation: 4% to 16%.
- Get projects back on track during implementation, reducing the cost of projects that may start to deviate from plan during implementation: 15% to 35%.

### **Time and Cost Requirements**

As is the case with Benefit Realization, the effort and total cost of having a formal Project Valuation Steering Committee varies depending upon the approach used, and the level of sophistication with regard to the methodology and process employed. However, the time spent by a Project Valuation Steering Committee in the execution of such a process, is very small when compared to the time, effort, and money spent (wasted) on projects that fail.

For more information contact Glomark-Governan headquarters in Columbus, Ohio, USA, at 1-614-761-2400; or visit our website: [www.glomark-governan.com](http://www.glomark-governan.com).

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i Secondary research include multiple sources such as [Cnet](#) (62% of projects fail); [Techrepublic](#) (68% of projects fail), [Dynamic Markets](#) (41 % failed to deliver the expected business value and ROI); as well as other reliable sources found in our research.

ii All numbers (percentages) within this section are the result of Primary Research efforts conducted by [Glomark-Governan](#), as well as the culmination of experience and knowledge gained over 19 years of Business Case Development efforts and EVC™ Practice/Methodology implementations.