Case study from textbook 3.1

CASE STUDY 3.1

Keflavik Paper Company

In recent years, Keflavik Paper Company has been having problems with its project management process. Several commercial projects, for example, have come in late and well over budget, and product performance has been inconsistent. A comprehensive analysis of the process has traced many of the problems back to faulty project selection methods.

Keflavik is a medium-sized corporation that manufactures a variety of paper products, including specialty papers and the coated papers used in the photography and printing industries. Despite cyclical downturns due to general economic conditions, the firm's annual sales have grown steadily, though slowly. About five years ago, Keflavik embarked on a project-based approach to new product opportunities. The goal was to improve profitability and generate additional sales volume by developing new commercial products quickly, with better targeting to specific customer needs. The results so far have not been encouraging. The company's project development record is spotty. Some projects have been delivered on time, but others have been late; budgets have been routinely overrun; and product performance has been inconsistent, with some projects yielding good returns and others losing money.

(Continued)

Top management hired a consultant to analyze the firm's processes and determine the most efficient way to fix its project management procedures. The consultant attributed the main problems not to the project management processes themselves, but to the manner in which projects are added to the company's portfolio. The primary mechanism for new project selection focused almost exclusively on discounted cash flow models, such as net present value analysis. Essentially, if a project promised profitable revenue streams, it was approved by top management.

One result of this practice was the development of a "family" of projects that were often almost completely unrelated. No one, it seems, ever asked whether projects that were added to the portfolio fit with other ongoing projects. Keflavik attempted to expand into coated papers, photographic products, shipping and packaging materials, and other lines that strayed far from the firm's original niche. New projects were rarely measured against the firm's strategic mission, and little effort was made to evaluate them according to its technical resources. Some new projects, for example, failed to fit because they required significant organizational learning and new technical expertise and training (all of which was expensive and time-consuming). The result was a portfolio of diverse, mismatched projects that was difficult to manage.

Further, the diverse nature of the new product line and development processes decreased organizational learning; [illegible] it impossible for Keflavik's project managers [illegible] next. The hodgepodge of projects also made it difficult for managers to apply lessons learned from one project to [illegible] on one project [illegible] projects [illegible] relearn processes whenever they moved to a new project.

The consultant suggested that Keflavik rethink its project selection and screening processes. To lend some coherence to its portfolio, the firm needed to include alternative screening mechanisms. All new projects, for instance, had to be evaluated in terms of the company's strategic goals and were required to demonstrate complementarity with its current portfolio. He further recommended that to match project managers with the types of projects that the company was increasingly undertaking, it should analyze their current skill sets. Although Keflavik has begun implementing these and other recommendations, progress so far has been slow. In particular, top managers have found it hard to reject opportunities that offer positive cash flow. They have also had to relearn the importance of project prioritization. Nevertheless, a new prioritization scheme is in place, and it seems to be improving both the selection of new project opportunities and the company's ability to manage projects once they are funded.

Questions

1. Keflavik Paper presents a good example of the dangers of excessive reliance on one screening technique (in this case, discounted cash flow). How might excessive or exclusive reliance on other screening methods discussed in this chapter lead to similar problems?
2. Assume that you are responsible for maintaining Keflavik's project portfolio. [illegible] some key criteria that should be used in evaluating all new projects before they are added to the current portfolio.
3. What does this case demonstrate about the effect of poor project screening methods on a firm's ability to manage its projects effectively?