

What is the 'True Value' of Project Management?

An important question

As organisations undertake more of their work in the form of projects, and as the effectiveness of project working in an organization becomes increasingly important to organizational success, there is a need to understand better how project management adds value.

Project managers and their fast-growing profession are strong advocates for applying project management disciplines and techniques in all industries, markets and sectors and some of these (especially petrochemicals and process engineering, but also aerospace and defence) have developed mature project management capabilities.

Unfortunately these underlying changes to the nature of organizational activity are leading to two very different kinds of problem.

Firstly, organizations in industries, markets and sectors that are less mature in project management, but who are convinced that they should be doing something to improve their project management capability, lack reliable means of knowing how much resource and effort they should invest in developing it, or what return they might reasonably expect on such investment.

Secondly, many thoughtful and more experienced managers are worried that promoting project management too vigorously in an organization is likely to raise the spectre of it becoming a 'bandwagon' or a 'fad'. Such management fashions are not only 'here today and gone tomorrow', but while they are 'here' they can easily attract so much attention that they cause the organization to take its eye off more pressing corporate performance goals, such as those directly related to revenue growth or customer satisfaction.

So it is legitimate for anyone who is being asked to approve investment for improvement initiatives of this sort to ask: 'What is the right amount of money (and the right kind of effort) for an organization to invest in improved project management capability?'

Finding the answer to this seemingly simple question leads inexorably through a variety of tough questions about the processes of 'business change' and 'business as usual', to a deeper understanding of how improving

Is it misunderstood by its 'cultured despisers', or do we over-hype it as a profession?

After four previous articles that have suggested solutions to questions that are currently engaging the attention of project-, programme- and portfolio managers, Terry Cooke-Davies now turns his attention to questions whose answers require dialogue between the project management profession and those sometimes sceptical general managers who employ them.

The article this month raises a question that is crucial to the long-term ambitions of the project management profession - 'What is the true value of project management?'

project management capability might lead directly and indirectly to improved organizational results.

But what are these tough questions? What questions should organizations be asking themselves about the corporate value added by project management? What kind of answers might they expect to these questions?

In this article, I will explore four such questions that are currently the subject of much effort by organizations that undertake projects, by project management professional bodies, by authors and consultants, and by the project management departments of universities. The four questions are:

1. How does improving project management capability lead to improved organizational results?
2. If we invest in improving specific aspects of our project management capability, will we obtain value for money?
3. Does a specialist project management department or project management office add value to an organization? And if so, how big should it be?
4. Given that every project needs managing, are there any guidelines as to the optimal relationship between the costs of managing a project, and the costs of executing the project tasks?

Question 1: 'How does improving project management capability lead to improved organizational results?'

When I went on my first senior management development programme thirty years ago in 1972, I remember being much impressed by two major new areas of management study that held out the promise of allowing a much greater degree of quantitative analysis to underpin difficult and often highly subjective decisions about the value of alternative investment options.

One of these was known as PIMS - the 'profit impact of market share'. The premise was that companies that had a dominant share of their market or niche, were able to command a higher sustained return on investment, as Figure 1 shows. When taken together with the work done by the Boston Consulting Group on the 'experience curve', this technique shaped the direction of much strategic planning during the 1970s and early 1980s.

Wouldn't it be great for the project management profession, and indeed for project managers, if it were possible to show a similar association between some measure of an organization's project management capability (however that might be measured) and its commercial success (once again, however that might be measured).

This has some similarities to the work that

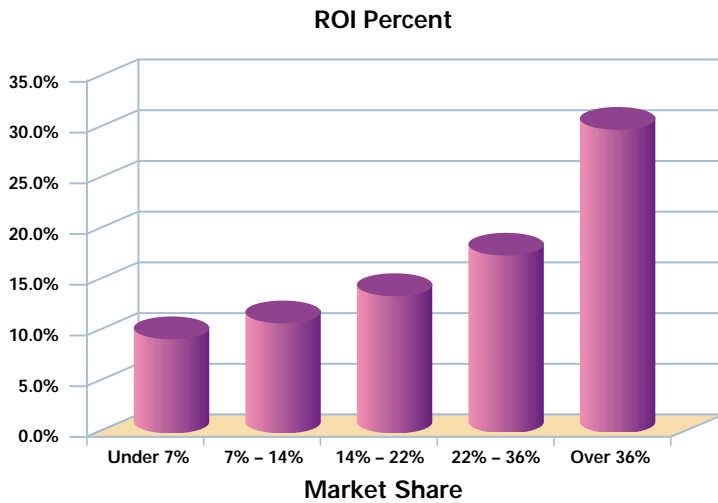


Figure 1: Effect of Market Share on Company Profits³

has been, and is being, undertaken by the PMI Educational Foundation and the University of California at Berkeley, under the direction of Prof. C. William Ibbs and Dr. Young-Hoon Kwak.ⁱⁱ

The difficulty is that unlike market share, which is a quantifiable measure of the results of an organization's activities, 'project management' is a concept that is difficult to quantify, and represents a description of an organization's activities rather than the results of them. Even the term 'project management' can lead to confusion in that it is regularly used to refer to two quite different concepts: firstly the practices, disciplines, processes and capabilities by which the organization manages projects, and secondly the functional department that is charged with the organizational responsibility for all or part of the former.

Few organizations would argue that the former is anything but an essential corporate capability, but there are many who are not convinced that this supports the argument for an increase in the latter.

So how can we get a reasonable answer to this first question? I know of three approaches that can lead towards an answer - benefits mapping, system dynamics and Theory of Constraints. These all have in common that they make explicit the 'cause and effect' relationships that lead directly from an improvement in a practice or a process to improvements in operational benefits (such as improved project predictability, or greater workforce productivity) and, ultimately, to increased financial benefits (such as greater capital efficiency).

Where they differ is in ease of applicability, and the ability to support the business case for improving project management capability.

● Benefits mapping allows specific benefits to be located in specific organizational units, thus helping directly with the structuring of the project, so that the costs of 'business change' can be related to the benefits of 'business as usual'.ⁱⁱⁱ Because of this connection, it can also help to promote dialogue between different

groups of stakeholders, and thus contribute in its own right to improved project communications.

● System dynamics using software such as iThink^{iv} offers the possibility of creating a highly interactive and predictive model that explores the performance of a project, programme, or business unit under different conditions of the system. The difficulty inherent in this approach is that it

involves a substantial modelling effort, and such models are not always embraced enthusiastically by practically-minded managers. (Incidentally, Jay Forrester's ground breaking work in System Dynamics was the second area that so impressed me back in 1972.)

● Theory of Constraints offers a variety of aids to logical analysis which clearly identify both the critical factors that cause current project, programme or business performance, and which indicate those interventions that will produce maximum leverage in removing constraints or bottlenecks. These can be very powerful, but tend not to fit into organizational units as intuitively as benefits mapping.

Question 2: 'If we invest in improving specific aspects of our project management capability, will we obtain value for money?'

There is a sense in which the second of our four questions follows on logically from the first. All too often, however, senior management is presented with a proposal to introduce project management certification, or timesheets, or a new project planning process, without a rigorous answer to the first question being provided.

If that is the case, then the general guidelines for preparing a business case need to be followed, and that was described in some detail in the first article of this series.^v

Increasingly, as more and more US-based corporations adopt the use of 'Balanced Scorecard' techniques, simple financial measures of value, such as ROI, are being replaced with more

complex sets of indicators of value that include 'upstream' operational measures as well as 'downstream' financial ones.

This is the approach to assessing the value of project management adopted by a research report that was presented at the PMI Symposium in Nashville last November.^{vi} This report started off with the rather unsurprising conclusion that 94% of more than 100 'senior-level project management practitioners' believed that project management added value to their organizations. (What, I wonder, was going on for the remaining 5 or 6%), but then showed that average improvements were obtained of the order of 50% in project/process execution, 54% in financial performance, 36% in customer satisfaction and 30% in employee satisfaction.

The trouble with generalisations of this sort is that they neither say anything about the baseline from which the organization was starting, nor do they distinguish between the different contributions that project management makes in different types of organisations. Contrast for example the different contribution made by project management in a transaction-based organization (such as a bank) illustrated in Figure 2, with that in a project-based supplier (such as an engineering contractor) illustrated in Figure 3.

Reluctantly, we conclude that any answer to this second question will be less than adequate if we haven't prepared a convincing answer to the first.

Question 3: 'Does a specialist project management department or project management office add value to an organization? And if so, how big should it be?'

For many people working in the project management departments, or the project offices, of organizations that are currently in the middle of laying off large numbers of people, this is far from being a theoretical question.

That might explain why so many are expressing interest in Project Management Maturity models.^{vii} If an organization is willing

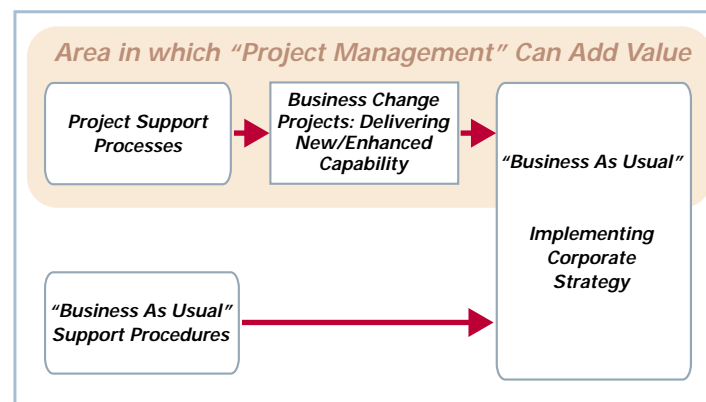


Figure 2: Opportunities in a Transaction-based Organization.

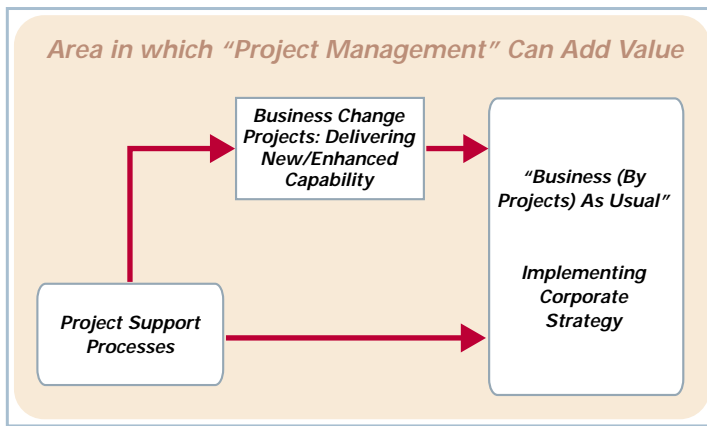


Figure 3: Opportunities in a Project-based Supplier.

to commit to a project management maturity model, then by implication, the tasks facing the project management department or the central project office are clearly delineated. And specialist departments will have an essential part to play in helping the organization to climb the ladder of maturity.

After all, the equation sounds very convincing:

A higher grade of maturity → more predictable translation of business strategy into consistently successful projects → increased corporate value.

The trends are certainly being given impetus by the US Government's new emphasis on suppliers achieving certain maturity levels as defined by the CMMI^{vi}. Indeed, this and other issues associated with project management maturity models will be dealt with more fully in a future article in this series.

On the other hand, any attempt to superimpose a heavy overlay of standard processes (such as CMM, or the even more widespread ISO 9000) is capable of destroying value through adding bureaucracy, just as it seeks to add value by encouraging repeatability and consistency. And we certainly do ourselves no favours as a profession when we use our centralised function to impose bureaucratic procedures on the whole organization that are seen to destroy value rather than to add it!

This will probably make me very unpopular among my project management friends, but it seems to me that there are as yet no compelling answers to this third question. Managers in organizations that have been seeking to improve project performance for a decade or two tell me that they see a pendulum effect, as management thinking oscillates between two extremes: centralise project management resources into a single department or office at one extreme, and distribute responsibilities throughout the business units at the other. This is the classic Western pattern of managing polarities, and it suggests that there might well be counterbalancing benefits to each approach. What we have not yet succeeded in doing is to find a way of incorporating the benefits from both polarities simultaneously.

Question 4: Given that every project needs managing, are there any guidelines as to the optimal relationship between the costs of managing a project, and the costs of executing the project tasks?

Of all the four questions that I am airing in this article, this is the only one that relates to the management of individual projects, rather than to the approach that an organization adopts to the management of all its projects.

Interestingly enough, Carl Pritchard quoted Dr. Jim West in the February edition of this magazine as suggesting that administration costs should represent a minimum of 15% of the total deliverable-oriented work time.

Mature industries (in the project management sense of maturity, that is) such as petrochemical and process engineering have more detailed benchmarks for both the costs of the project management system, and the elements of the project life cycle to which it should be applied.

In the early days of Human Systems' own benchmarking work we collected a certain amount of management cost data as it related to the costs of deliverable-oriented work, and it provided some interesting indications. For example, there was some indication that projects delivered the optimum cost- and time-performance (as measured by performance against plan) when management expenditure was somewhere between 5% and 10% of total project manpower-related costs.

Less than 5% seemed to provide inadequate control information, whereas over 10% appeared to typify projects where additional management was imported in order to bring projects under control.

Once more, variations between the challenges and contexts associated with individual projects severely limit the value of any generalizations.

Concluding questions.

So what are we to make of all these questions? Do we file the whole topic in the 'too hard' tray, and turn to questions that we can more easily answer? Do we just get on with doing what we can, and live with continual attempts

to introduce the latest project management 'silver bullet', whether it is planning software, the latest methodology, external qualifications or Capability Maturity models? Do we long for the day when project management is simply another necessary business process, just like order fulfillment or credit control? Or should we, as a profession, focus real effort on understanding just how project management adds value to an organization?

What do you think?

The question posed in this article is the kind of question to which there are no easy answers. It is the kind of question that brings into the open the hidden assumptions that are shared by many project managers, and creates dialogue with those at the helm of Great Britain plc. It is the kind of question that promotes learning at least as much through the dialogue that we engage in as through the answers that we propose.

Human Systems Limited and *Project Manager Today* are creating an online discussion forum to pursue the questions that are posed in this article. To make your contribution, email, with the word 'reader' in the title, to steve.cotterell@btinternet.com giving your contact details: you will then be sent a password for www.discussionweb.com or you can e-mail comments to questions@projectmanagertoday.co.uk



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i Sidney Schoeffler, Robert D. Buzzell, and Donald F. Heany. (1974). 'Impact of Strategic Planning on Profit Performance.' HBR March-April 1974. Cambridge, Mass.

ii C William Ibbs & Young-Hoon Kwak, (1997), 'The benefits of project management. Financial and organizational rewards to corporations.', PMI Educational Foundation, Philadelphia.

iii See the earlier article in this series, 'Managing Benefits - the Key to Project Success', *Project Manager Today*, November/December 2001.

iv 'Thriving During Tough Times - Improving Project Results in the Face of Adversity.' *Project Manager Today*, October 2001.

v 'The Value of Project Management: Proof at Last', J. Kent Crawford and James S. Pennypacker, Proceedings of the Project Management Institute Annual Seminars and Symposium. November 1-10, 2001. Nashville, Tenn, USA.

vi In evaluating the need for maturity models, PMI's OPM3 programme has identified more than thirty different maturity models that are currently in use. See 'Beyond the PMBOK(Guide', Terry Cooke-Davies, John Schlichter and Christophe Bredillet. Proceedings of the Project Management Institute Annual Seminars and Symposium. November 1-10, 2001. Nashville, Tenn, USA

vii CMMI is the Capability Maturity Model - Integration, published by the Software Engineering Institute of Carnegie Mellon University.