Th Prls f rbtrry Prjct Cst Mngmnt

(The Perils of Arbitrary Project Cost Management)

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Introduction

"If you can read this sign, you are following too close." This guidance appears on the back of many commercial and personal vehicles. Ironically, the act of moving close enough to read the sign imperils both the reader and the driver of the vehicle bearing it. Similarly, you may wish to replace the practice of following project costs closely in the wrong ways with following them more wisely.

The difference between following costs wisely and (for example) reducing funding in hopes of controlling cost is similar to the impact of removing the vowels from the title phrase: you may get the gist, but lose quality. This article shares insights into effective project Cost management, while managing the interactions between Cost and the other Elements from USA-NCB, the USA's National Competence Baseline[1] for PM.

The Importance of Managing Cost

We assert that **it is important** to manage project Costs. After all, many projects are justified based on some level of Internal Rate of Return or Return on Investment. In those cases, if costs are not managed, the Break-Even-Time is extended, or perhaps never realized. In other cases, such as with regulatory projects, it may be more important to focus on other success criteria, such as the right Scope at the right level of Quality. This is why most successful projects begin with an understanding of your Project Success Criteria (another NCB Element).

The Impacts of Arbitrary Cost Reduction

But some organizations confuse managing cost with restricting budgets. Budgets are a resource. Cost reflects what the project *should* Cost, and *will* Cost, if it is managed effectively. The factors (NCB Elements) that have the greatest impact on project Cost are Resources and Scope.

Some tend to arbitrarily restrict needed funding (the budget as a resource) with the mistaken impression that this will cause cost savings. Instead, this makes projects cost more, take longer, and produce lower-quality results. Let us review six common scenarios, to see how widespread is this particular area of PM Malpractice.

1) During Project Initiation, a Project Team estimates an initiative using three different methods. The resulting effort estimate is used together with other cost information to establish a funding estimate. Executive Management arbitrarily cuts that estimate by 20%, and budgets that amount. The consequence? The team not only exceeds that budget; it also exceeds its original estimate.

2) A Project Manager requests permission to contract with external talent in an area where no relevant in-house experience exists. The request is denied, because *external costs* are considered to be "real money", while *internal costs* are considered to be just "on paper". As a result of this "cost savings", the project costs more, takes longer, and often produces a lower-quality result.

3) An organization with a weak Portfolio Management process commits to too many projects, each having too few resources. When the team needs the best Subject Matter Expert in a business unit, that person is unavailable; she is already committed to another project. The consequence: The team engages an available, but less-savvy person, resulting in, as before, higher cost, longer duration, and a lower quality result (do you see the trend?).

4) The next scenario is similar to the above, but with a different reason for failing to provide the needed talent: The key customer representative in a major project is asked to spend up to one-half his or her time on an important large project, "but don't let your other responsibilities suffer".

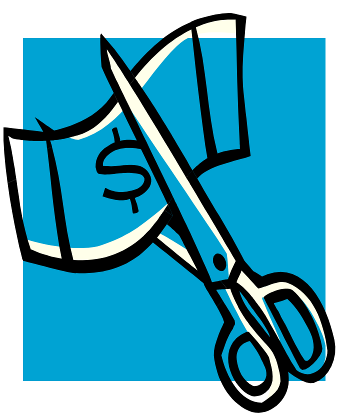
The consequence: same as scenario three, and total frustration for the talent.

5) In a contractual engagement, the fulfilling group needs resources that are available in the Enterprise, but are under the control of other groups. Those groups are rewarded not for their cross-project cooperation, but for their stovepipe performance. Thus they hoard key talent, rather than share it across the Enterprise. The consequence: the fulfilling group is forced to buy outside resources at higher cost.

6) An insufficient number of team members is available to deliver the needed business solution in the timeframe desired. Rather than increasing talent or reducing scope as recommended by the PM, middle-managers push down fiercely, using phrases like "looks like we'll be burning a little midnight oil to get this done". Through heroic efforts, the now burnt-out team manages to meet the target—thus encouraging the Enterprise to perpetuate such PM Malpractice.

How many of these scenarios play out in your projects? None? Some? Most? The *"restrict budget or other resources to improve Cost"* mentality is not unique to any one organization or industry, but is one of the greatest reasons for failure to achieve Benefit Realization. Ironic, isn't it? Artificial cost savings results in wasted money and lost opportunity.

Cost and the Project-Oriented Enterprise



In too many cases, cutting submitted budgets is a common practice in process-oriented Enterprises. However, you must manage Project-Oriented Enterprises in a completely different way. For example, while you may thrive by starving your processes, ***you must feed your Projects***.

This is a major strength of organizations that are the most successful Project-Oriented Enterprises. Is this one of your strengths?

In process-oriented work, you may be able to closely monitor the processes and add resources when failures begin to occur. But due to the one-time nature of projects, you cannot wait to add resources to a starved project until after the inevitable failure.

Managing Cost In Hard and Soft Projects

Managing Cost by restricting Budget tends to be less prevalent in "hard-result" projects, those that produce physical results, such as a road, office building, or a satellite. And it tends to be more common in "soft-result" projects. Those results may be new business processes, Information Technology systems, or new products to market.

Sometimes the consequence of this malpractice is well-hidden, rather than always manifesting in late projects and higher costs. For example, we have seen many projects that were completed on time, and within budget. But no one ever used the result. Thus, the Super-Measure we use as a project success criteria, Benefit Realization, never occurs.

Some Managers don't restrict funding; they prefer to apply pressure; the "do more with less" mentality. This occurs frequently in projects with soft-product results: Managers (indeed, some Project Managers) believe that if they just push a little harder, they can squeeze more out of this project team. In fact, the total converse is true. Each time they squeeze a little more from a team, the hidden cost is diminished Benefit Realization—and a team that will also fail in their *next* project.

There are more penalties for this arbitrary cost-cutting beyond the missed benefit. The opportunity-cost: what could they have done instead for all that cost and time? Savvy Executives manage Project Cost, not just using it as a constraint, manage all the resources effectively, and gain the intended benefits—including an energized team.

Soft Projects and PM Competence

If they were building a skyscraper, such as the Shanghai World Financial Center (one of the top 10 Chinese Programs in a 2006 judging we did[2]) they would never resort to pressuring the team to accomplish their goals.

Instead, they would understand that there are many trade-offs that savvy Executives can weigh and balance, to achieve success. Thus, "hard" projects are easier to measure and manage while "soft" projects require insightful measures, and even more attention to the Elements of Competence.

But **who** must be more competent? We already have competent Project Managers, don't we? Well, perhaps not. We may have people who are certified in their knowledge about Project Management, but that does not mean they are competent; it is just a good beginning. This is why IPMA-USA is pursuing certification of Program and Project Managers in their **Performance Competence**[3].

You may assert that a truly competent Project Manager could overcome all the scenarios discussed above. Indeed, in our experience, they sometimes can. But there is more to Organizational PM Competence than the role of the PM. Real and lasting improvement comes from gradual and effective managing-upward by savvy PMs, together with deft culture change by Enterprise Executives.

We've seen this improvement in project performance in Enterprises that use our PM Competence Model[4]. We start the improvements by identifying and developing the key competences of Project Managers and Team Members. The greatest gain, however, comes when we add Project Sponsors, Directors and Resource Managers to the model, assessing and developing their competences.

The ability of stakeholder Executives and Managers in these Program and Project roles to quickly and correctly act on actionable information has become a clear project success factor—resulting in better projects, faster, with lower cost, and greater benefit realization. *Project actualization*, as it were.

The ability of Executives to act depends on Project Managers providing actionable recommendations, with information about the consequences of failure to act. This helps clarify the "cause and effect" relationships between proper action and success.

And take note: This ability to act does not mean these top stakeholders need to be able to build a project schedule: they do need to be able to read the schedule, and respond to requests for needed support to keep the project on schedule (or within budget)—when it is important to do so.

What Does "Within Budget" Mean?

One measure of Project Success in situations where project Cost is important is "Within Budget". Even here, lack of consistency and understanding of project dynamics tends to produce misleading information.

Just what does *Within Budget* mean? Review your PM practices, and see which data point you use to measure whether the project was *Within Budget:* Does this mean:

1. The Budget proposed at Portfolio prioritization?
2. The number that resulted when the proposal was arbitrarily cut by 20 percent?
3. The revised cost figure after Requirements Definition, which is usually the first reliable estimate?
4. The cost estimate from the most-recent Stage/Gate review and approval, which includes all management-approved changes in Scope and Cost?

Even when we see Enterprises that have grown beyond the other malpractices we've discussed, we still find instances of the wrong answer to the question above. The correct answer is number 4. What is your experience?

If your experience differs, what actions can (and will) you take to rectify this? This all-too-common situation again illustrates the difference between PM knowledge and PM Performance Competence: Most practitioners (and their Executives) know the right answers, and the practices they should apply. Yet we continue to perpetuate project Cost management malpractice.

Ascend to Smarter Cost Management

Project Cost is an important factor; but it is a trailing indicator (see our *Levers and Gauges* article on our ProjectExperts website). You certainly do help manage Project Cost by monitoring the efficiency of your project spending. But the **best way** to optimize project Cost management is by managing the project leading indicators. These often include Scope and the Talent (or other Resources) on the project. This insight is a key competitive advantage of Project-Oriented Enterprises.

A tight Budget does not result in lower Project Cost. It usually increases overall cost, acting as a constraint. And even when Cost is an important measure of your project success, Benefit Realization (as mentioned earlier in this article) is a Super-Measure. Managing Cost by managing well can result in earlier delivery, higher quality, earlier Break-Even Time, and greater Benefit Realization.

In Conclusion

Those who try to contain project Costs by restricting budgets, applying pressure, or withholding needed talent, are perpetuating flawed practices. Those who appropriately fund their competent Program and Project Managers can outperform their competition. Even better, the Enterprise whose Executives and Managers know how to harness the full power of its project talent dominates its market.

The vast majority of Executives and Managers in today's Enterprise tend to manage your project environment in a very effective manner. Yet even the best of us can fall victim to old practices, especially when we are under pressure. Perhaps you know managers who apply some of the practices we discuss in this article. Perhaps occasionally you practice them yourself.

Your mission (if you choose to accept it): Improve Enterprise PM Competence, and eliminate PM Malpractice in project Cost management to extend your competitive edge—or lag in the wake of others who do so. To cite another familiar sign: *Objects in your mirror are closer than they appear*.

References

1 The USA National Competence Baseline for PM is based on the IPMA Competence Baseline, developed by International Project Management Association. It is available as a free download at the ProjectExperts.com website.

2 At the Shanghai IPMA World Congress 2006, a handful of practitioners, including the author, judged top Chinese Program and Project Managers' recent efforts. Many wondrous construction and infrastructure programs were covered, including the Beijing Olympics Stadium. All the Program Managers had excellent results to present.

3 IPMA-USA, through its certification body *PMCert*, is performing Competence-based certification of Portfolio Managers, Senior Program Managers, Program Managers, Senior Project Managers, Project Managers, and Knowledge-based certification of Project Associates. See www.ipma-usa.org.

4 PM CompModel offers self-assessment of the competence of seven key levels of program and project stakeholder. PM CompModel uses the Project Manager's USA National Competence Baseline as its competence framework. A free *lite* version of PM CompModel is available for downloading at the ProjectExperts' website.

About the Author

STACY A. GOFF, *the PM Performance Coach*, is CEO of ProjectExperts®, a global Program and Project Management consulting, methods, tools and Learning consultancy.

A co-founder and past President of IPMA-USA, Stacy has been an officer in IPMA®, the International Project Management Association. In 2015, he was named an IPMA Honorary Fellow. As well, he has contributed to the success of Project Management Institute since 1983.

A Project Management practitioner since 1970 and PM consultant since 1982, he improves Enterprise or project team PM competence, efficiency, and Performance. Mr. Goff speaks at industry events, offers coaching and consulting services, and presents workshops of great interest to Executives, Managers, Project Managers and leaders, technical staff, and individual contributors.

His Project Management tools and methods are used by Government Agencies, Enterprises, Consultancies, and individuals on six continents. He combines his PM Process insights with wide-ranging experience in projects and programs, and with sensitivity for the human aspects of projects.

The result: Measurably increased ***PM Performance,* Personal, Project, Program, and Portfolio Performance**.

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