The Importance of ROI for Project Managers

By Wayne Brantley and Jack J. Phillips

Measuring the value of project management can be related to the Peter Drucker statement, "What gets measured, gets done." We will find this to be resoundingly true with measuring the ROI of project management.

A project, as defined by the Project Management Institute (PMI), is a temporary and unique effort that has a defined beginning and end time. It's safe to say that at all times multiple projects are happening throughout organizations of all sizes and industries. How are these projects funded? What is the cost of these projects? How do these projects impact the organization? These are great questions that must be answered by all executives and all project managers. Knowing these values are critical as organizations manage and execute projects; however, few project managers report the full cost and return on investment (ROI) for their projects

Organizations have a wide variety of ongoing projects but often see a deficient or noneffective effort with project management's execution of these projects. This can be seen in issues with project performance. Many problems may exist, ranging from being late to running overbudget to scope creep. Project managers are often technical experts that have evolved to this position and are appointed project manager with little training and preparation to lead a cross-functional team of experts from different parts of the enterprise. The term "accidental project manager" is often adopted by the project manager. In spite of this, they do all they can to keep the project moving and completing the project with minimum damage, as companies rarely track project performance.

The Project Management Institute has seen an increase in the need to understand the ROI of project management, or as they refer to it, benefits realization management (BRM). When a culture exists within an organization to measure project performance, they will see an increased focus on project management and the activities used to implement a project. PMI research states: "When project benefits are frequently identified before the start of a project—as part of the business case—organizations experience better results: 74 percent of projects meet goals and business intent versus 48 percent in organizations that do not".[1]

The same research report also identifies that benefits realization or return on investment (ROI) is rarely seen as a financial measure used by project managers, with fewer than 40 percent of the respondents reporting that project managers are accountable for the identification of the benefits to be delivered.[2]

The mindset that projects must get done is a part of the problem preventing project managers from maximizing the project's performance. Organizations need to start with understanding "the why" of the project. Why is the project being implemented? What benefits does it provide to the organization? What is the ROI for the project being measured? The answer to these questions will provide insight to the organization as to where they should focus and apply their resources. This design will allow for organization investments in the projects that best align with the strategic objectives of the organization.

To ensure success and continued industry growth, this mindset must shift. This shift will require a change in organizational thinking and processes. PMI research identified a need for a strategic purpose for projects. They also identified, *"active engagement and shared responsibility among C-suite executives who set and approve strategy, business owners who translate the strategy into projects with targeted outcomes for their area of the business, and project managers who manage the execution of projects to realize those outcomes."* This research clearly identifies the importance of project management and the project managers role in the achievement of strategic objectives, which include financial gains. This will require a systematic approach to dealing with this project management implementation.[3]

Project managers and organizations need to establish a defined methodology to determine how they will measure the value of project management. The ROI Methodology®, the most used evaluation system in the world, is an industry-accepted process that allows for a standardized approach to collecting and evaluating the ROI of project management.

This methodology is implemented in over half of the Fortune 500 companies, as well as several other private and government organizations throughout the US, and in 70 countries internationally. The ROI Methodology provides organizations with a process that can cross organizational boundaries, linking programs, processes, and initiatives to bottomline and strategic measures.

The ROI Methodology has sustained its position as the leading approach to program evaluation because it:

- Reports a balanced set of measures.
- Follows a methodical, step-by-step process.
- Adheres to standards and philosophy of maintaining a conservative approach and credible outcomes.

The concepts of cost-benefit analysis and ROI have been used to show the value of programs, processes, and initiatives for centuries. Cost-benefit analysis is grounded in welfare economics and public finance; ROI in business accounting and finance. Together, the two are the ultimate measures of the contribution of programs, processes, and initiatives. But alone, they are insufficient. While cost-benefit analysis and ROI report the financial success of programs, they omit critical evidence as to why the financial impact is as it is. By balancing financial impact with measures that address individuals' perspectives and the systems and processes that support application, a complete story of program success can be presented.

The ROI Methodology is a four-phase process that includes the following stages:

1. Plan the Evaluation
    a. Align the programs with the business
    b. Select the right solution
    c. Plan for results
2. Collect Data
    a. Design for input, reaction, and learning
    b. Design for application and impact
3. Analyze Data
    a. Isolate the effects of the program
    b. Convert data to monetary value

    c. Capture the costs of the program
    d. Calculate the return on investment
    e. Identify intangibles
4. Optimize Results
    a. Communicate results to key stakeholders
    b. Use black box thinking to increase funding

Following the ROI Methodology recommendations will lead to sustaining project management initiatives. If you are starting out on a journey to formalize project management, or if you already have invested a great deal of money and time into a project management implementation, you need to measure ROI. Do this before the focus of the project is forgotten and the *why* of the project management effort is lost. It was, it is, and it will be important.

PMI identifies in their research that only 58 percent of organizations fully understand the value of project management.[4] Organizations that know the value of project management will see greater ROI. Additionally, based on analysis from PMI, the Economist Intelligence Unit (EIU), and BCG, "Companies that have mature BRM practices in place are 1.6 times more likely to realize project objectives and 3 times more likely to meet or exceed their target ROI on individual projects."[5]

This brings us back to the original question: "What is the ROI of project management?" By now you realize that project management is imperative to organizations. However, is there support for the importance of project management? Can your chief financial officer identify what the ROI is for project management? The answer is probably no, they cannot. What if the situation was that you had so many projects that the 12 project managers you currently have are not enough to complete the work? How can you defend your case to hire eight more project managers? What other functional area are you competing against for more payroll? How can your project manager roles be justified? They are not revenue generating—or are they?

Philip Crosby, author of the landmark book, *Quality is Free,* identifies an interesting concept in comparing the costs of conformance or doing quality and the cost of non-conformance or not doing quality. The costs of conformance included the following:

- Prevention costs
    - Product or service requirements
    - Planning efforts
    - Assurance costs to maintain quality
    - Training costs
- Appraisal costs
    - Verification costs
    - Quality audits
    - Supplier verification
- Internal failure costs
    - Waste
    - Scrap
    - Rework
    - Failure analysis
- External failure costs

- Repairs
- Warranty costs
- Complaints
- Returns
- Law suits[6]

If we consider this way of thinking, we can easily say that "*project management is free*." We can say to the CFO, "*Now do I have your attention*?" We would like you to consider the following costs for not investing in project management:

- Cost of a schedule delay
- Cost of running over budget
- Cost of not meeting stakeholder expectations
- Costs to other projects for not releasing resources
- Cost to our industry reputation for the problems with our projects
- Contract penalty costs
- Costs for making "it" right

Project management processes can mature at an enterprise level and at an individual level. We can and should continuously develop our skills and knowledge of project management, through direct and indirect skills and knowledges. These indirect skills and knowledges are complimentary and can enhance what the project managers knows and does. Organizationally, there are processes that can mature and increase the impact that project management has on an organization. This journey includes establishing the processes that a project goes through to processes that are continually improving. This is achieved through baselining, knowing where your current performance stands with efforts that are continuously being modified and tailored to maximizing the impact that project management has in an organization.

For more information on how to build ROI capability as a project manager, please visit www.roiinstitute.net or email info@roiinstitute.net.

References:

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