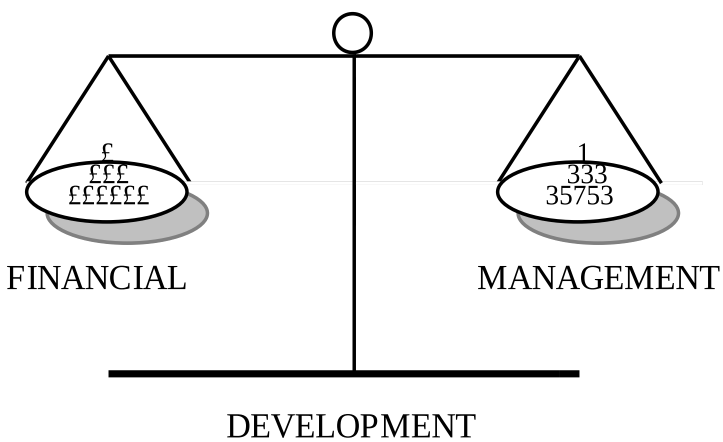
FINANCIAL MANAGEMENT DEVELOPMENT

Management Reporting

Project Management

NO 231

PROJECT MANAGEMENT - AN OVERVIEW



ONE OF A SERIES OF GUIDES FOR

FINANCIAL MANAGEMENT DEVELOPMENT

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This is one of a series of documents produced by David A Palmer as a guide for managers on specific financial topics to assist informed discussion. Readers should take appropriate advice before acting upon any of the issues raised.

PROJECT MANAGEMENT - AN OVERVIEW

What is a Project?

A project is an activity or group of activities which involves a clearly defined goal, a timescale which requires resources, whether human, physical, financial, or a combination of all three. Any business decision can give rise to a project.

The main stages of a project may be described as:

Conception,
Authorisation,
Implementation and
Review.

Each stage may require different skills from the project manager. In addition there is a fundamental difference between projects which involve sales activity and those which only involve investment. The former require more flexible control systems to cope with the inevitable deviation of actual sales from those planned. The latter tend to concentrate the control mechanisms on the identification of cost and time overruns and the taking of corrective action. This paper considers the responsibilities of a project manager with the emphasis on the financial issues arising from project management.

The Role of the Project Manager

The role of the project manager is not to perform tasks, nor to have technical responsibility but specifically the role of management. Delegation is vital. The role includes:-

- Defining the scope and objectives of the project
- Preparation of the plan
- Organisation of the staffing (the staff organise the other assets)
- Creation and maintenance of the necessary communications activity
- Establishment of the necessary control mechanisms
- Co-ordination of all activities
- Monitoring of schedules, costs and quality
- Avoidance of cost or schedule surprises
- Motivation of all parties concerned with the project

<u>Project Management</u>

Project Management consists of four stages:

1. **<u>Planning</u>** (including consideration of Internal, Project and External factors)

2. **<u>Establishment of control mechanisms</u>**

3. **<u>Evaluation of output from the control mechanisms</u>**

4. **<u>Decision making on the basis of the output</u>**

It is important that the planning stage includes the agreement of the project's objectives, the method of control and the person(s) responsible for decisions based on information generated by the control process.

1. <u>Planning</u>

The planning process includes:-

1. Agreement of scope and objectives

2. Allocation of responsibility

3. Network Analysis

4. Critical Path Analysis - establishment of float time

5. Consideration of appropriate project evaluation and review techniques

6. Consideration of GANTT charts and computer models

7. Evaluation of alternative options and costs

8. Agreement of the final plan including start and end date and criteria for completion of the project.

9. Agreement on control mechanisms

10. Agreement on milestones, acceptable and unacceptable deviations from plan and go/no go decision points.

The key message is:-

"PLAN THE WORK AND WORK THE PLAN"

2. Establishment of Control Mechanisms

Following the clear definition of the project, the manager needs to:

- Define what is to be controlled
- Identify who is to control it
- Decide how it is to be controlled

The specific control mechanisms can then be created. In particular consideration should be given to:

- Frequency of reports - daily/monthly or by exception
- Presentation of actual vs. plan - all data or selected
- Establishment of tolerable and intolerable variances
- Design of systems to produce the appropriate reports minimising the need for duplication of input.

3. Evaluation of Output from the Control Mechanisms

The evaluation process needs to be both timely and realistic. In particular, consideration must be given to the time delay between an unwelcome event occurring, the reporting of the event, the identification of the corrective action and the implementation of that action. Corrective action taken too late can be more damaging than no action and evaluation of output when it is too late to take corrective action is a pointless task (as far as the project is concerned although it may help future projects).

The main steps are:

- Identification of key variables

- Agreement on the nature of the variances and what constitutes a significant variance

- Identification of the impact of variances on:
  - the results to date
  - the projected future reported results
  - the "real world"

- Management by exception

- Estimates to complete (for calculation of profit to date and to enable the customer/user to consider alternative actions, including stopping the project).

4. Decision Making on the Basis of the Output

In the construction industry it is believed that 50% of the key decisions taken on a project are taken before inception and 50% are taken once construction is underway. In practice these are often different types of decision. Before inception there is often time to consider optimum solutions and flexibility of approach is vital. Once the project has started and the time/money clock has started, the immediate problems tend to dominate and decisions on "quick fixes" are common. All too often these decisions can cause considerable problems elsewhere in the project because the wider perspective of the decision was not considered.

The project manager's objectives need to be clarified. Is the brief to complete "at all costs" or is it to complete within specific limits? The various processes involved will include:

- Replanning - when necessary, including communication to all parties
- Go/no go decision points (clarity of decision is required)
- Reallocation of resources
- Identification of changes in the critical path, bottle-necks and the impact of changing the areas being monitored
- Progress meetings - frequency (or ad hoc)
- Contingency planning
- Taking responsibility, delegation or asking for further authority

In particular, in order to preserve the project manager's sanity, it is important that there is a clear understanding of the difference between a budget (a coherent strategy to achieve clearly defined goals) and a target (an objective which is desirable but possibly unachievable).

Too many projects set the target as cast in stone and end up failing to achieve what would have been a perfectly feasible budget because of the attempts to achieve the impossible. Realism is part of the Project Manager's armour - but like a bucket of cold water it needs to be used carefully to damp things down rather than putting the fire out completely.

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David is an experienced financial professional who has devoted his skills to management training in practical understanding and utilisation of financial information. A Graduate, Chartered Accountant, and Associate of the Institute of Taxation, he is also a Member of the Chartered Institute of Personnel and Development and has been an Ordained as a Deacon in the Catholic Church.

He has worked as a Financial Controller and Company Secretary in the Finance industry and as a Director of Finance and Administration in the Computer Services industry. Since 1990 he has conducted management development programmes for over forty major organisations including Arla Foods, Blue Circle, BP, CSC Computer Sciences, Conoco, Ernst & Young, Lloyds Bowmaker, Royal Mail, Unilever and Zeneca. He also runs programmes for the Leadership Foundation and the management teams at a number of Universities. International training experience includes work in Belgium and Holland for CSC, in Denmark, Kenya and the Czech Republic for Unilever, in Holland and the US for Zeneca, in Dubai for Al Atheer, in Bahrain and Saudi Arabia for Cable & Wireless.

He specialises in programmes in financial management for both tactical and strategic decision making. In addition he has run courses in acquisition evaluation (The Economist, Eversheds, Blue Circle and Hays Chemicals) and in post-acquisition management (Unilever). All training is specifically tailored to the needs of the organisation with the emphasis on practical applications to enhance profitability and cashflow. He has developed material for delivery by in-house personnel (Royal Mail, Lloyds Bowmaker and Conoco), computer based training packages (The Post Office, Unilever and BP), and post course reinforcement self-study workbooks (CSC and Zeneca). He has also produced a training video on Cashflow Management.

He is a prolific writer of case studies, role plays and course material. He has also published articles on the financial justification of training, financial evaluation of IT investment proposals, the use of Activity Based Costing and Customer Profitability statements, commercial considerations for consultants, the need for taxation awareness training for general managers, evangelisation and Christian business ethics.

Many of his generic documents are freely available on his website:
FinancialManagementDevelopment.com including papers on Charity Management.

In addition to his Diaconal work in the Church, he has held a number of voluntary positions including University, College and School Governor, Hospice Treasurer and Trustee of various charitable institutions. He continues to provide ad hoc commercial advice to several other charitable organisations. He has been married for over 35 years and has one daughter and three granddaughters.

This series of papers is designed to help managers by providing a basic understanding of key financial concepts to assist them in their work. It is provided at no cost since this knowledge is a Gift from God and thus to be shared (Matthew 10:8).

