

# EXPERT SERIES

The "Expert Series" is a collection of articles, papers and writings by PM Solutions' associates and other industry experts that provides insight into the practice and value of project management.

## Can you Quantify the Value of Project Management in Your Organization?

by Deborah Bigelow, PMP

**METRICS MAKE MY DAY!** They are also the foundation for many of the management decisions I make on a daily basis. Capturing the right metrics and properly interpreting them is often my challenge. I used to think that the most fundamental metric was the "bottom line". After all, business needs to generate profit. The return on investment (ROI) tends to be the driving factor for implementing specific projects and ultimately the measure of their success. If the return is good (and I generally think in terms of \$\$), then obviously it is a good project and a smart decision to implement it. However, after reading numerous articles and publications on different approaches for evaluating value, I am slowly altering my perspective.

In trying to understand a specific business approach, I generally relate it to a more familiar environment - my family. I have three daughters who absolutely love volleyball. They not only play for their high schools, but also with the local "club" teams. Club volleyball can get very expensive (relatively speaking). So my husband and I took a business perspective and agreed to invest in developing their volleyball skills. Our thought was that if we invest now, they will probably end up getting scholarships and our return on this investment will be great! Well, my oldest daughter just graduated from high school...and she did not receive a volleyball scholarship. Was my investment a failure?? Absolutely not! If my measure was strictly the return on our investment (ROI), then the absence of a volleyball scholarship would deem this investment a failure. However, in the four years that my daughter played volleyball with this Club team, she received so many more intangible benefits. From a broader and more balanced view, this investment was a success and the "return" is forthcoming.

Many executives are turning toward this "balanced scorecard approach" to determine the value of project management in their organizations. They believe that many other, more intangible benefits will accrue but not show in the ROI calculations. So what should one measure to determine the benefits of implementing project management? Certainly ROI plays a critical role. ROI measures how effectively assets are used to earn income. Financial measures alone, though, do not present a clear picture of the value. They often do not represent a clear sign of the future measures. To truly evaluate effectiveness, financial measures must be supplemented with nonfinancial ones.

Research in a report published by the Center for Business Practices has shown that creating value for stakeholders is the key to organizational success. Companies that stress shareholders, customers, and employees outperform firms that do not. Over an eleven-year period, the former increased revenues by an average of 682 percent versus 166 percent for the latter, expanded their workforces by 282 percent versus 36 percent, grew their stock prices by 901 percent versus 74 percent, and improved their net incomes by 756 percent versus 1 percent.<sup>1</sup>

A balanced family of measures for determining the value of project management might include:

**Financial Measures:** economic value-added, return on capital employed, sales growth, productivity, cost savings, earnings per share.

**Customer Measures:** customer satisfaction, customer retention, customer acquisition, customer profitability, market share, customer use.

# EXPERT SERIES

Can you Quantify the Value of Project Management...

Page 2 of 2

**Project/Process Measures:** cost performance, schedule performance, meeting technical specifications, quality, resource utilization, time-to-market, project completions, project risk

**Learning and Growth Measures:** employee satisfaction, employee turnover, training time, employee productivity, employee motivation, employee empowerment, information system availability.

Effective metrics are leading indicators, they forecast future trends inside and outside the organization. They need to be inexpensive to collect, appropriate, comprehensive, quantifiable, and statistically reliable. If you can balance your scorecard with these measures, you will have the perfect measure to evaluate your project management effectiveness.

PMI performed a study on the Benefits of Project Management (Bill Ibbs and Young-Hoon Kwak) which theorized that benefits increase as an organization increased its project management maturity. Currently, the Center for Business Practices is surveying organizations to effectively measure the value of project management. Their focus is to move beyond the ROI calculations and more toward the "balanced scorecard" approach in measuring project management value.

As an executive or manager, you might want to start quantifying the value of project management. Start capturing metrics to validate the investment your company is making in project management. I know as my freshman and sophomore daughters continue with their volleyball, I'll be evaluating my investment from a totally new perspective!

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<sup>1</sup>J. Kent Crawford and James S. Pennypacker, "The Value of Project Management: Why Every 21st Century Company Must Have an Effective Project Management Culture," PMI 2000 Seminars & Symposium Proceedings, Project Management Institute, 2000.

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