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PRODUCT FOCUS: Many Happy Returns

Corporate belt-tightening means project managers need ROI-focused tools to show and deliver value on project investments.

By Catherine Curtis

The pop culture catch phrase "Show me the money!" may have worn out its welcome years ago, but it's as fresh as ever among senior executives charged with guiding their companies through a murky economic climate. Internal and external projects are under a magnifying glass, and facing tough questions about their overall value. Soft, intangible benefits are well and good, but projects these days need to show payback in hard, tangible numbers.

"When money is tight, people tend to sharpen their pencils," says Ray Trotta, a consultant and co-founder of iValue in Barrington, Ill. "Shareholders now want answers."

And project managers are now expected to provide some of those value-based answers. They are being held accountable for how wisely they manage resources, budgets and schedules. Projects and business strategies must align.

"Organizations are looking to maximize investment potential by prioritizing investment opportunities, analyzing and investing in the right work, approving opportunities based on investments, and adjusting priorities based on performance," says Greg Gilmore, chief operating officer of PlanView in Austin, Texas.

To do so, companies need tools to justify, forecast, track and measure project spending-all in the name of delivering better return on investment (ROI). These ROI-focused tools-be they cost-management, resource management, reporting or "what-if" data analytical software-need to integrate with project and portfolio management efforts to create a financial framework for keeping projects connected to the bottom line, analysts and solutions providers say.

"Find a tool or software that offers flexibility and gives the organization the ability to set its own objectives and initiatives that can change over time," says Steve Jannicelli, senior project strategy manager at PeopleSoft in Pleasanton, Calif. "What's important for a pharmaceutical company that's been around for 10 years may not be important for a start-up software manufacturer."

Trotta believes ROI measurement tools should be aligned with the company culture. "The integrity of the information you put into your ROI analysis is critical," he says. "Use metrics that are accurate and everyone agrees on, and make sure your analysis has credibility. Also, align your measurements to what makes the business tick."

It is equally important to avoid blinders and resist simplification when managing projects for ROI. "Measuring ROI is more appropriate in a multidimensional fashion, where you can look at several metrics across multiple projects," Jannicelli says. "ROI, project risk, how well the project will succeed, value and alignment with business objectives should all be taken in tandem. Take a good look at your organization and ask questions like, 'If I successfully execute this project, how will the organization benefit in a few years' time?' or 'Is this project the right thing for the organization?'"

Speaking the Same Language

Today, shrinking budgets are forcing executives to fund only capital projects that provide maximum business value. That means CIOs have to choose the right mix of projects. When the CEO of PeopleSoft told the CIO to help cut $100 million in expenses for the company, the CIO launched an effort to justify the IT projects he had under way. He became a huge proponent of the company's own software, Project Portfolio Management, which helps plan, compare and contrast projects for maximum value, and prioritize initiatives based on internal goals and predefined metrics.

"Our CIO says that before he had portfolio management implemented, one of his biggest challenges was to justify cost and value of his organization to our CEO and CFO," Jannicelli says. "All three use different languages and come from different backgrounds and focuses. They needed to come to a common framework to discuss the value of our organization in common terms."

With project portfolio management, CIOs, CEOs and project managers can speak the same language, share risk and collaborate in the investment decision-making process so they can make smart decisions about which projects will bring value to the organization.

Playing It Safe

It's almost a given that even if you have a fixed budget when you start a project, the unexpected happens. Some organizations are smart enough to protect themselves from uncertainties by hiding buffers, or safeties, in multiple places. But since there's no way to manage those safeties, they usually get wasted in execution, resulting in projects that are still late and over budget.

Many software providers are focusing on ways to "save" project managers from common pitfalls such as scope change, which can quickly kill ROI. "Managing the adverse effects of uncertainties, including local delays, is key to today's project management world," says Sanjeev Gupta, CEO of Realization Technologies in San Jose, Calif. "Older project management is useless for doing this, forcing managers to react to local uncertainties, which only leads to vicious, wasteful cycles of late, over-budget and under-scope programs."

At industrial equipment manufacturer NACCO Material Handling Group, the Counterbalance Development Center used Realization's Safety Engine to reduce planned project length on its first program by 20 percent, leading to increased profitability, Gupta says.

Exposing the Softer Side

ROI emphasizes tangible payoffs that can be measured in financial terms. But by focusing solely on dollars and cents, companies risk being wrong instead of being approximately right. "ROI is about your ability to convince the organization that, in the end, the benefits of this project will return more than other possible projects," says Zane Schafer, vice president of development at Niku Corp. in Redwood City, Calif.

And some benefits of a project are considered intangible or "soft" such as reduced risk, increased employee productivity and improved strategic alignment.

So how do you measure soft benefits? Schafer suggests developing a questionnaire or balanced scorecard approach. Balanced scorecards join traditional financial indicators with operational metrics and integrate them into a broader framework that accounts for intangibles.

Schafer says that is important to enable users to define success indicators, prioritize them to reflect company strategy, and then track actual performance across business units. "You really need a portfolio management tool that offers everything from the front door to the back room and all that's in between," he says.

"ROI has been a part of project management for 20 years and has always been a front-and-center topic," Schafer says. "But the recent economy has made numbers more important. In corporate America, you have to justify what used to not have to be justified. The magnifying glass is now sharper, and you have to produce proof that what you're doing is worth doing."