

Published on November 3, 2005

Why Should Project Management Matter to CEOs?

By Paul Dinsmore, PMP, PMI Fellow and Pedro C. Ribeiro, MBA, PMP

Profitable growth through seamless execution of strategies is the best way to assure the creation of long-term value for shareholders. However, experience indicates that brilliantly formulated strategies that are not effectively executed result in loss to shareholders. Executing strategy through projects aligned with key shareholder value drivers is perhaps the most important factor for organizational success.

Shareholder Value and Project Management

In order to increase the value of shareholders' investment, or avoiding its depletion, attention to the basic drivers of shareholder value may be one of the fundamental tasks of CEOs, CFOs and COOs. The shareholder value approach takes into account the economic value of any strategy. If we look at the basic drivers of shareholder value creation, the majority of them are directly influenced by the level of excellence in project management of the organization. Working capital investment requirements, sales growth rate, and operating profit margin are directly impacted by project management success rates. Factors like time-to-market and to-cash are heavily influenced by the organization's project management capabilities. Here's how project management impacts those drivers and consequently the enterprise's results.

Working Capital Investment: Troubled projects increase working capital level needs. Delays on getting client acceptance will increase accounts receivables and working capital requirements of the organization with negative impacts on cash flow from operations. Delayed projects may mean high inventory levels increasing working capital needs and financing.

Sales Growth: In a rapidly changing competitive environment factors such as innovation, launching of new products and the correct time to market are key to success. Late launching of new products may represent loss of needed cash inflow from sales. Lower sales growth impacts working capital. Missing time-to-market may represent loss of market share to competitors and sales growth opportunity. Bad projects management may have lasting impacts on customer satisfaction perception, client relationship and future sales. Supporting a differentiated high quality strategy requires seamless strategy execution through projects.

Profit Margin: Late, over-budget projects impact profit margin. Many projects will be undertaken to improve technology or operations or to reduce costs and so increase profit margins. Schedule problems in the implementation of new solutions targeted at increasing corporate efficiency such as ERP frustrate the timing of expected cost benefits of the implementation. Charging premium price in a high quality/ high price strategy requires seamless execution of projects. In addition fines and litigation fees due to flawed execution may flounder profit margins as well as careers.

The Cost to Shareholders of Bad Project Management

While good project management cannot save an organization from a bad strategy, the following examples illustrate the potential damage of bad project management to corporate results:

A joint venture between Marriott Corp, Hilton Hotels Cop, Budget Rent a Car, and AMR Information Services (AMRIS), designed to increase shareholder value ended in court after four years of poor project management, including unclear product definition, missed deadlines, overwhelming number of changes, and poor communications practices. US\$ 213 million were written off related to the project before litigation among parties began.
(The Project Management Scorecard, Phillips, Bothell, Snead ,2002)

The potential of troubled projects to hurt an organization's results can be further illustrated by McDonald's US\$1 billion Innovate Project designed to tie all its operations into a real-time digital network and improve competitiveness. After just two years from conception, though, a total of US\$170 million were written-off related to the cancellation of the project ending the most expensive and extensive information technology project in the company's history according to the article McBusted on Baseline Magazine July 2003 issue.

Standish Group's 3rd Quarter 2004 Research on the IT industry indicated that 18% of all surveyed projects have failed (cancelled prior to completion or delivered and never used) and 53% are challenged (late, over budget and/or with less than the required features and functions).

What Upper Management Can do to Guarantee Effective Project Management

Since a powerful relationship exists between projects and shareholder value, effective project management should necessarily rank high on the priority list of successful enterprises. Here are the key topics that require attention from top management to make sure strategic projects are carried out in alignment with the objective of increasing shareholder value:

- **Project Portfolio Management.** This involves a system for filtering and formally approving projects, and assuring that resources are available for their execution; in many cases, this may mean rejecting proposals and canceling ongoing projects.
- **A System of Governance.** Governance in the project sense means ensuring that projects have sponsors, or in some cases steering committees, to provide strategic guidance and political interface for the project team once the project is underway.
- **Organizational Support and Tools.** Companies that carry out projects successfully provide support and tools to project teams. This may be in the form of a PMO – Project Management Office, and computer-based project control systems.
- **Skilled Resources.** Competent project managers and team members are musts for successful multiple project management. The executive suite must ensure that those resources are being continually developed.
- **Milestone or Stage Gate Reviews.** Successful enterprises track their strategic projects through each stage, to validate moving on the next stage, or to “pull the plug” or change course in view of new circumstances.
- **Transition to Operation and Benefits Management.** Projects are implemented under the assumption that they will provide benefits to the organization once completed. Effective top managers thus focus on handover and subsequent benefits generation.

Robert Cook, former CEO Latin America for Unisys Corporation comments on the importance of excellence in project management:

“The importance of excellence in project management could not be over rated. I would guess that all of us as senior operations people have been involved in projects that have created shareholder value and those - that have reduced shareholder value. Also, I’m sure that all of us have gone back to understand – how is it possible that one project could meet all of the objectives while another could miss the majority of the objectives and create many negatives for the organization. We need to be in a continuous learning process. A well structured lessons learning process in project management is key to seamless execution and ensuring that the direction of the project is correct from the beginning of the effort”.

Focusing on Project Management Governance

Since effective implementation of the right combination of the right project is imperative for organizations to survive and prosper, it behooves CEOs to make sure that an adequate governance policy is in place for managing projects across the enterprise.

At its highest level, governance involves a set of relationships between an organization’s Board of Directors, executive management, shareholders (where appropriate), and other stakeholder groups. Through the governance system, an organization determines not only strategic and operational goals but also create the conditions to ensure that right processes, procedures, practices, and structures are in place in order to reach those goals, and control their achievement.

Project management governance defines those relationships and policies as applied to the managing of multiple projects within an organization.

Governance of project management thus establishes the necessary processes, procedures, practices and structures to ensure that all forms of project change are governed and directed effectively. So the CEO needs to make sure that under the corporate governance umbrella, a governance policy is in place for the management of strategic projects and multiple operational projects.

Projects need to be aligned with corporate goals and are subject to derailments when governance is lacking. From the standpoint of the organization, a project is ultimately successful only when it delivers the benefits the organization had in mind when it made resources available—and to the extent that the project stakeholders are satisfied.

Celina Antunes, CEO South America Region for Cushman & Wakefield Semco comments:

“For decades, project management has been a discipline in engineering, construction and other industries, where a key management skill has always been the ability to complete a job on time and on budget. Yet it's only been in recent years that the discipline has moved to its current status as one of the leading reasons for success in some of the world's best companies. When you need an outcome done right, on time, and within a budget, you definitely need project management to assure results”

Conclusions

CEOs are constantly challenged to translate strategies into shareholder value. The stakes of not doing so are becoming extremely high. An organization's level of excellence in enterprise-wide project management is important to senior management that is focused on ensuring that value creating strategies are implemented as well as to security analysts who wish to develop improved insights about the value realization capability of organizations.

Paul C. Dinsmore, PMP, PMI Fellow, is author of 11 books on management and project themes including “Winning in Business with Enterprise Project Management” (Amacom, NY, 1998). He is President of Dinsmore Associates, a consulting and training company operating globally, with base offices in Rio de Janeiro, Brazil, and can be reached at dinsmore@dinsmore.com.br

Pedro C. Ribeiro, MBA, PMP is a project management trainer and consultant with over 25 years of executive and consulting experience. He is a Liaison for PMI Educational Foundation in Brazil and the immediate past Regional Chair, Central & South America for PMI IT&Telecom SIG. Pedro Ribeiro is based in Sao Paulo, Brazil and can be reached at pedro.ribeiro@theprojectoffice.net