White paper

Project Financial Management

Why financially-minded project managers outperform their peers

Sage

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Project manager challenges

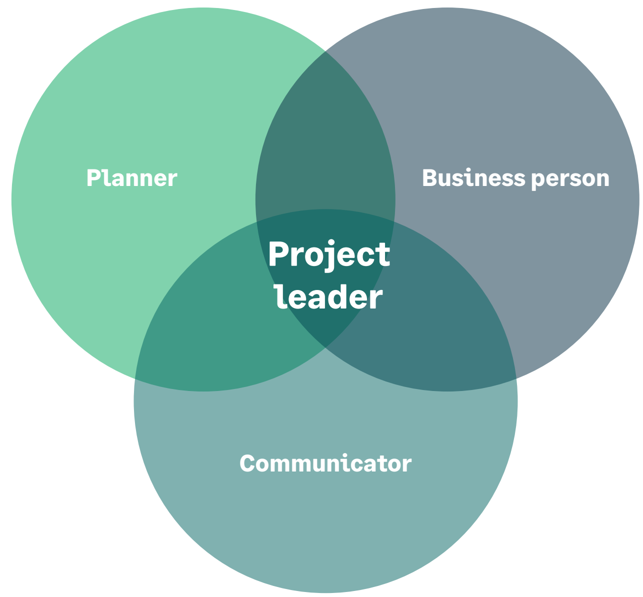

Figure 1

> "Management is, above all, a practice where art, science, and craft meet."
>
> ~ Henry Mintzberg

As a leader in professional services, you know all too well the role your Project Managers (PM) play in your business. As seen in figure 1, they wear many hats to make the organization successful. They are:

- Experts in their particular field, knowing the ins and outs of your industry.
- Leaders of your teams, managing everything from schedules to time tracking.
- Visionaries, helping your customers see the vision and execute on the close.
- Organizers, tracking resources, keeping projects on track, or shifting as necessary until projects are completed.
- Our front-line financial managers, tracking project costs, and responsible for achieving project profits.

Through the increased use of technology such as mobile and cloud, todays PM owns the project management lifecycle end to end. From project execution, staffing, and scheduling, to change management and execution, your PM is key to the organization's success. Although overall project management is their focus, project financial management – focusing on the project costs and profit -is a part of the PM role that has its own unique set of challenges. Whether doing the initial budget, dealing with customer changes to the project, or onboarding new employees, these challenges all impact your business.

So why does this matter? Because there's so much at stake financially. Delays in the financial management process have ripple effects across projects. Project profitability – from baseline margins to closing down financial periods, needs to stay on track and close to budget. With delays in the financial process, project decision making is delayed which can further affect project performance. As an example, let's look at a financial metric. An increase in Days Sales Outstanding (DSO) directly impacts available cash and reduces financial flexibility. This could lead to restrictions on resources, which in turn could impact scheduling and utilization. Having sound financial management, in this case knowing DSO sooner, allows your PM to react faster and take action accordingly. This example is just one of many supported by research. A recent study by Harvard Business review1 shows that **poor project financial management- including items like costs, resources, and benefits – can negatively impact project performance by nearly 12%**.

The impact of good project financial management reflects even further when it comes to project estimations. Having accurate estimates is key to other project metrics like client expectations, project duration, and overruns. This is seen in the annual research study performed by Service Performance Insights (SPI), a global research, consulting, and training organization dedicated to helping professional service organizations (PSOs), who conducts an annual benchmark survey highlighting statistics across PSOs. Their 2020 Professional Services Maturity Benchmark, Table 128: Effectiveness of estimating processes and reviews, shows that having a good understanding of estimates – helped by a solid estimation methodology to a minute level, **can increase project margins by as much as 37%**.

Today's PM is a jack of all trades, and your support helps them and your organization to succeed. But shifting to a financially minded project mindset isn't easy. To help them, your PM needs the executive support and tools to focus on the financials. Having the right building blocks now will help you build today's PM into tomorrow's financially focused driver of profit and growth.

Impact—effectiveness of estimating processes and reviews

Effectiveness of estimating processes and reviews	Survey %	On-time proj. delivery	Std. delivery meth. used	Exec realtime visibility	Project margin
1 (poor)	1.4%	65.0%	38.0%	2.67	29.8%
2	10.2%	74.9%	63.6%	3.05	34.0%
3	27.3%	77.1%	64.3%	3.45	34.5%
4	51.3%	80.3%	68.9%	3.62	36.2%
5 (great)	9.9%	83.5%	73.8%	3.90	41.0%
Total/average	100.0%	79.0%	67.2%	3.53	35.9%

Building the foundation

Maturity matters

Key performance metrics	Maturity level 1–2	Maturity level 3	Maturity level 4
Percentage of respondents	54.8%	25.0%	20.3%
Year-over-year change in PS revenue	8.3%	12.3%	14.8%
Deal pipeline/qtr. bookings forecast	156%	190%	220%
Employee billable utilization	61.3%	77.6%	84.2%
Projects delivered on time	68.0%	84.8%	91.8%
Annual revenue/ billable consultant (k)	$124	$230	$293
Annual revenue/ employee (k)	$89	$186	$251
PS EBITDA	7.5%	15.1%	21.0%

Table 2

A good starting point for building a financially minded PM is to first focus on the behaviors and culture within your organization. Business culture traits, such as leadership focus, organizational alignment, and process execution, are part of your organization's fabric and help set the stage for how your PM will conduct their day to day. By increasing the levels of standardization in processes within your businesses, you can help your organization to be more successful. The 2020 SPI benchmark Table 2 shows that PSOs that have higher levels of business process maturity (as defined earlier) tend to have better overall performance than those that do not. This can be seen in project delivery, with the most mature organizations **increasing on-time deliveries by 35%**.

But having a solid culture and standardization is only the beginning. To help continue to build your PM, initiating other programs across your organization will help reinforce the company values you have set. Incentives could be tied to specific key performance metrics. Regular reviews of project status and costs help to reinforce the routine. And adding in a mentorship program, where high performers can coach others, allows best practices to be taught. And these are just a few ideas to help build a solid foundation for PMs.

With a process-oriented culture in place, lets focus on visibility as our next building block. Project management is, by nature, a reactionary business. Plans change, services are added or removed, resources are reallocated. The consequences mean that your PM is constantly putting out fires – and although the focus is on future deliverables this isn't necessarily true for the financial side. As an example, PMs may only be reviewing invoices as they are issued, without greater insight into the project's financial status. Visibility into status for your PM is one of the most crucial aspects to project management. Knowing where projects stand, milestones, availability of resources, and associated metrics should all be quickly accessible to the PM to help them make informed decisions. A recent study by PMI2 shows that among the causes of project failure, 37% cited a lack of visibility into project milestones as the leading cause. To remedy this, ensure your PM has access to readily available dashboards that include the full portfolio of projects and their associated KPI. Items such as budget to actual costs, profit, and resource utilization should be easy for your PM to track and measure. Lacking these metrics makes it difficult for your PM to plan efficiently and makes it even more difficult to take a strategic approach to project management.

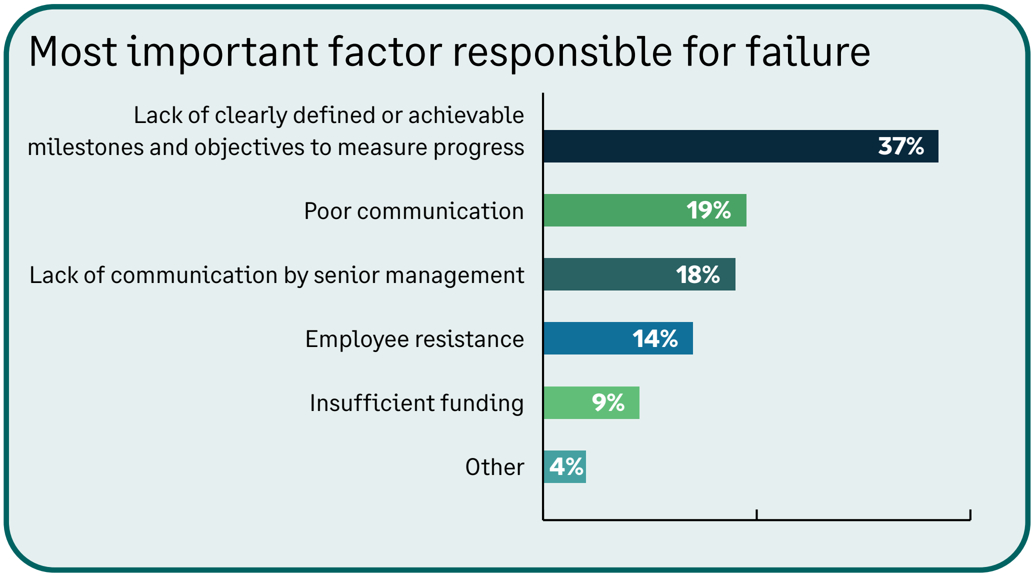

Table 3

Your PM needs to be proactive when it comes to managing projects. This necessitates a deeper understanding of the project and signals that the project is deviating from the plan. Knowing what the financial ramifications of those deviations are - and having the solutions to get the project back on track when things go awry - can help avoid surprises and reduce the financial impact.

Focus on the financials

As a PSO leader, reviewing financials daily is critical. But when it comes to financial metrics, what you focus on for the overall business is different than what your PM needs to review for their projects. Brian Siefkes, Director of Industry Marketing, Professional Services at Sage Intacct, breaks down financial metrics into two groups for PSOs—those for leadership, and those for PM.

For leadership, he recommends high-level organization metrics, such as:

- Profit percent (topline, segment, client)
- Standard vs. effective cost
- Utilization (topline, segment, emp type)
- Revenue per employee or consultant
- Customer satisfaction—NPS
- Revenue leakage and multipliers (labor, payroll)

"If you're a leader, you're looking at overall profit," says Siefkes, "but typically, this is too much information for a PM to worry about. This doesn't help them manage the projects in front of them."

Project managers, on the other hand, need more timely, focused information. "It has to be timely and useful" says Siefkes. He recommends metrics that are aligned at the project level, such as project profit, budget vs actual, earned value, and transactions over a certain threshold. "The goal is to get information in front of them (PM) as fast as possible so they can take action quickly".

Project managers need fast and useful

- Project or task level profit
  - Standard vs. effective is critical here
- Budget vs. actual
  - Useful but incomplete
  - Monitor to a sensible detail level
  - Actual (billed + WIP vs. Spent)
- Earned value
  - Requires tracking % complete
- Recent transactions over a threshold

✓ **Easy to read**
✓ **Real time**
✓ **Drill to detail**

✕ **Eyechart**
✕ **Back office**
✕ **Confusing**

Table 4

But outside of pure financial metrics, there are other parts of the project management process that can impact the financials. Change order management is another financial factor to consider. “Having a clear process for scope creep is key to delivering on project margins” says Charles Gutine, Product Marketing Manager at Kimble. “Don’t let extensions or other changes be invisible, because where they are, you lose the ability to have the change management data be a foundation for building realistic scopes and budgets.” SPI Research supports Charles’s statement, as the effectiveness of the change control process is tied directly to on-time project delivery as well as project margin. As shown in table 5, companies who have **an effective change management process saw a 43% increase in project margins**.

One more area that can directly impact your financials is resource management. Having the right people assigned to the right projects can directly impact your bottom line. Resource management can be either decentralized or centralized and can be managed from a variety of tools, from ad hoc scheduling via spreadsheet to an integrated PSA solution. But for your PM, being strategic about resource management - considering the impact of experience, skills, costs, and bill rates for their projects—can significantly impact margins.

“Too highly skilled of a team and margins will take a hit,” says Gutine. “But on the flip side, having too inexperienced of a team, while it looks cheaper, it probably will lead to overruns.” And although there are many strategies behind resource management, a centrally managed strategy seems to be the leading strategy among the top five as shown in table 6, having **overall higher billable utilization, and lower project overruns**. Ensuring your PM has the right resource management strategy in place will continue to help build a financially minded culture.

Impact—effectiveness of change control processes

Effectiveness of estimating processes and reviews	Survey %	On-time proj. delivery	Std. delivery meth. used	Exec realtime visibility	Project margin
1 (poor)	2.1%	76.1%	63.1%	3.00	29.5%
2	14.7%	67.4%	78.9%	3.29	33.6%
3	34.0%	70.9%	76.8%	3.33	34.8%
4	41.7%	75.0%	80.4%	3.72	36.4%
5 (great)	7.5%	75.2%	85.0%	3.93	42.2%
Total/average	100.0%	72.5%	78.9%	3.53	35.8%

Table 5—Source: SPI Research, February 2020

Impact—resource management strategy

Resource mgmt. strategy	Survey %	Revenue growth	Billable utilization	On-time proj. delivery	Project overrun	Std. del. method. used	Project duration (man-months)
Centrally managed	44.9%	11.3%	73.6%	80.0%	8.7%	68.9%	24.2
Locally managed	23.3%	9.9%	68.6%	79.0%	8.8%	67.2%	22.0
By account	10.9%	8.4%	68.3%	76.5%	8.5%	63.9%	32.9
By horizontal skill set	9.2%	10.8%	72.8%	79.8%	10.5%	69.5%	33.6
Center of excellence	8.3%	9.3%	72.0%	79.4%	8.8%	59.7%	28.2
Other	3.5%	12.5	72.5	80.9%	12.7%	70.0%	42.9
Total/average	100.0%	10.5%	71.6%	79.3%	9.0%	67.3%	26.5

Table 6—Source: SPI Research, February 2020

Automation speeds evaluation

To truly help your PM focus on the financials, access to project information needs to be seamless, and more importantly, real-time. Whether reviewing budgets and available resources, or T&E and project costs, the basis for PM decisions lies in the information available to them. The more up to date the data, the better the decision quality. But to get to that level, it's critical to have a solution in place that allows your PM access to the realtime data they need.

SPI research shows in table 7 that the top PSOs in 2020 have deployed a commercial financial management solution (CFM) which is integrated with, or has features of, a Professional Services Automation (PSA) solution, to handle items like billing, revenue recognition, and reporting, among others. The stats behind this tell the tale—**project margin increased an average of 5% for companies using an integrated PSA solution** over those that did not—an ROI that's hard to ignore. A great real-world example of this is Halloran Consulting. By arming their PM with real-time financial data, they **increased project margins by 12% and boosted billable utilization 36%**.

While integration to a CFM is paramount, the ease of getting the day to day project related data into the system (also known as the dreaded timesheet) is a task that every PM is accountable for. Timesheet upkeep is notorious for being difficult. Having to track and enter data is an ardouous task that's mindless yet necessary. But it's a leading reason for revenue leakage. Spreadsheets are tedious, meetings are difficult to track, and the reality is our memory fades over time. Having a modern, mobile solution, along with an enforced time entry schedule, can drastically reduce errors and potential revenue leakage.

Best-of-the-best comparison—business applications

Solution	Best	Rest	Delta
Corporate financial management solution (CFM)	100.0%	94.5%	8%
Satisfaction with financial solution	3.88	3.81	2%
Commercial CRM Solution	84.0%	86.8%	-3%
Satisfaction with CRM solution	3.87	4.04	-4%
CRM is integrated with CFM	52.2%	48.8%	7%
Commercial PSA	96.0%	84.2%	14
Satisfaction with PSA solution	3.84	3.87	-1%
PSA is integrated with CFM	66.0%	53.3%	24%
Level of CRM and PSA integration	56.0%	46.6%	20%
Commercial HCM solution	76.0%	67.6%	12%
Satisfaction with HCM solution	3.90	3.50	11%
HCM is integrated with CFM	35.7%	31.2%	15%
Use a commercial BI solution	62.5%	52.2%	20%
Satisfaction with BI solution	4.33	3.84	13%
BI is integrated	52.8%	44.1%	20%

Table 7—Source: SPI Research, February 2020

Software for success

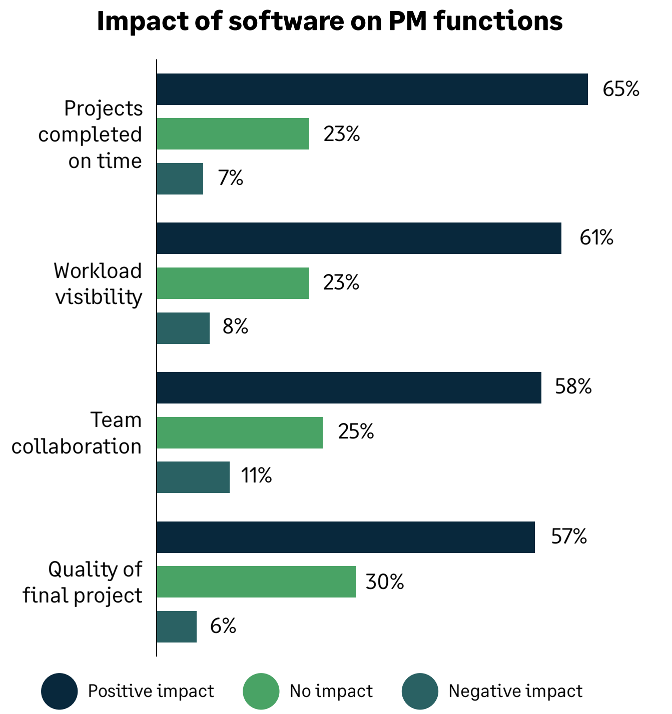

Table 8—source: Capterra

"Fundamentally, the key to success is to have the time to get to the advanced stuff—you have to free up that time, and that's a combination of behavioral change and technology adoption," says Gutine. He recommends creating efficiency through process improvements, so PMs have the time to do proper evaluations against budget and protect margins.

By providing comprehensive visibility via the right software, PMs spend less time hunting information and more time making better business decisions. A culture of good governance—which includes real-time information—can create additional efficiency and bandwidth across your organization. This extra time allows the PM more time for what matters—on-time project delivery and optimizing value for your business. A recent study by Capterra research shows the impact of software on the project management function. Among respondents, 65% said software had a positive impact on projects completed on time, and 61% said software increased workload visibility. There are clear positive impacts across project management using the right software.

Building a culture of financially minded project managers is no small task. Taking the right approach today, including building a culture with standardized processes, increasing project and metric visibility, and enhancing efficiency with technology, will build your organization – and your bottom line. Find out how Sage Intacct can help your organization build financially minded project managers and achieve your objectives, profitably.

References

1. Use data to revolutionize project planning

2. PMI. org

About Sage Intacct

Sage Intacct is the AICPA's preferred provider of cloud financial applications. Over 1.5 million projects are run on Sage Intacct for a variety of organizations, including consulting, BioTech, marketing, technology, accounting and more. Sage Intacct streamlines project accounting, while delivering real-time budget vs. actual visibility for project managers and detailed financial reporting for finance teams.

Our modern, cloud solution, with open APIs, gives project-based businesses the connectivity, visibility, and efficiency they need to drive project performance. At Sage Intacct, we help service organizations strategically grow their business through detailed insights to support critical decisions.

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