

“Finance for Project Managers and Team Members”

International Project Managers Day – Edinburgh

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Colin McNally



Pathfinder Financial Management Methodology©



"A *journey* of a thousand miles *begins* with a single *step*" ...

Lao Tzu (c 604 bc - c 531 bc)

According to tradition, Lao Tzu was a contemporary of *Confucius*



This evening

- The journey of an idea
- Where we are
- The idea
- Q&A



Who is involved?



CJM Ltd (www.cjm-fm.co.uk) was founded in 2008 by Managing Director Colin McNally, BA (Hons), F.C.M.A, to specialise in providing project financial management expertise. Colin has built up a wealth of experience in portfolio, programme and project financial management, working for 17 years providing financial management direction, cost reduction exercises, financial management strategy and expertise to blue chip organisations, small and medium enterprises, and large consultancy and development partners.



Peter Morrison, BSc (Hons), MCIBS, (www.abertay.ac.uk) has been a lecturer in finance at the University Of Abertay for 17 years. His interests lie mainly in personal and business finance, banking, treasury management and education, particularly enquiry-based learning. Prior to joining Abertay, Peter was a bank manager with a leading Scottish bank and a part-time lecturer at Aberdeen College of Commerce teaching on a professional banking course.



Helen Smith, (www.abertay.ac.uk) Associate Director Teaching Innovation joined the University of Abertay Dundee as a lecturer in Accounting in 1998 having spent the previous 7 years as a senior manager in the NHS undertaking a number of different roles; Information Services Manager and Project Director for Resource Management, Project Consultant with the NHS Scottish Office and Project Manager for the Resource Management Project in an Acute Hospital Trust. Prior to this Helen was a lecturer at a Further Education College. Helen's interests are in performance management, beyond budgeting and innovation in teaching.



What are your project “financial management” experiences?

What project “financial maturity” have you experienced with the projects you have worked on?



Recognition of need.

Financial Management Magazine (CIMA, 2003) recognised underdevelopment of budgetary controls and management information, corresponding with poor issue and risk management as reasons for project failure.

By 2008, the NAO stated the following as reasons for financial failings:

- The inability to integrate financial and operational performance information.
- Poor forecasting capability, leading either to departmental overspends or (where unanticipated underspends were not identified early) losing reallocation opportunities.



Recognition of need.

Project Management techniques have advanced through P3M3 Portfolio, Programme and Project Management Maturity Model.

Increased 'visibility' of financial management maturity has not delivered improved availability of financial training.



Something is missing?

At a time of limited funds, there is a compelling case for a **shift in financial management thinking** across the capital investment portfolio of programmes.

By **improving understanding** and **implementing best practice** in financial management, and by **increasing the skill set** of those involved.

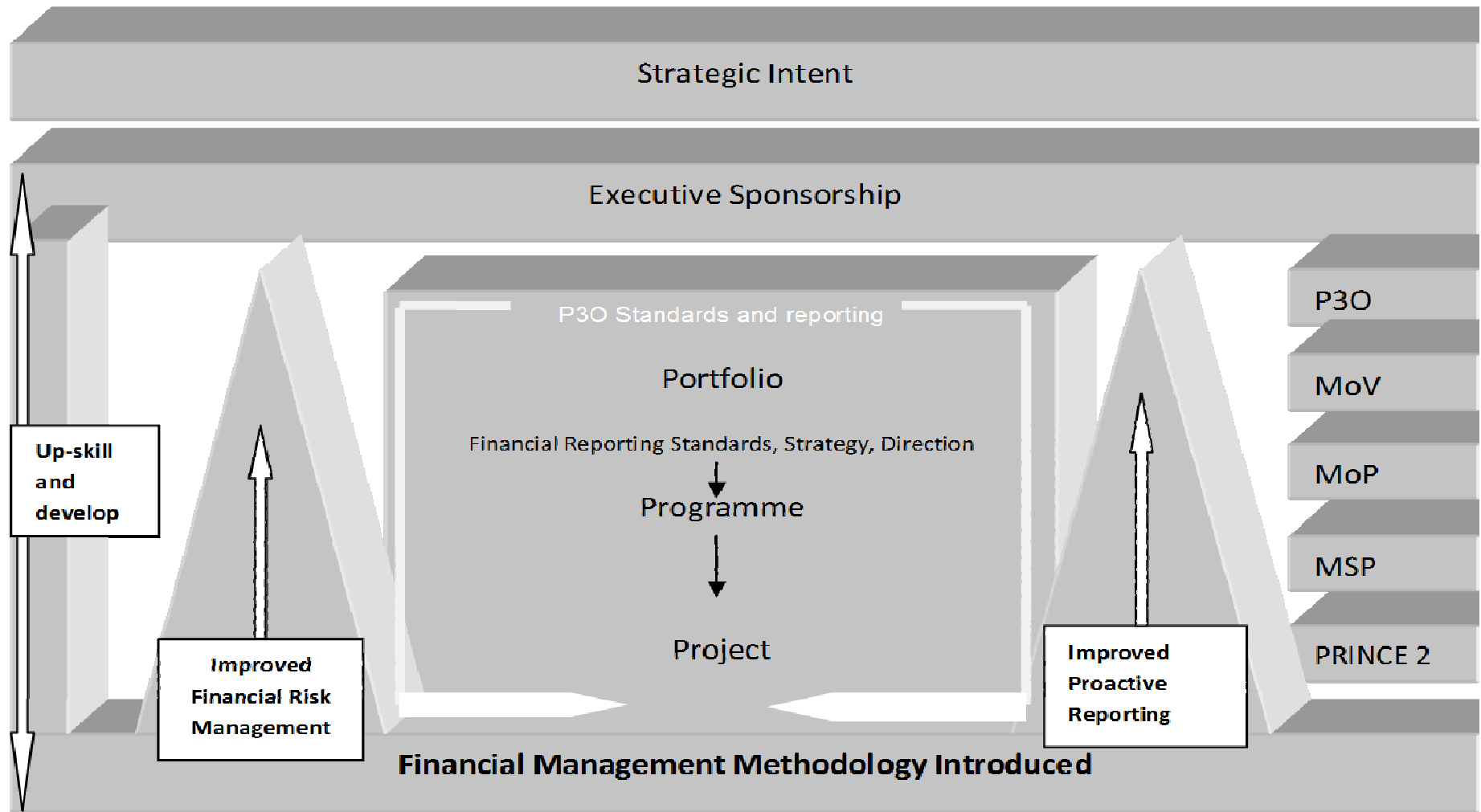
We can achieve an **increase in levels of financial maturity**.



The Idea



Diagrammatical Structured Financial Management Approach ; (CJM, 2010)¹



Core Principal



Every team member influences the cost
of the project.



Pathfinder Financial Management Methodology©



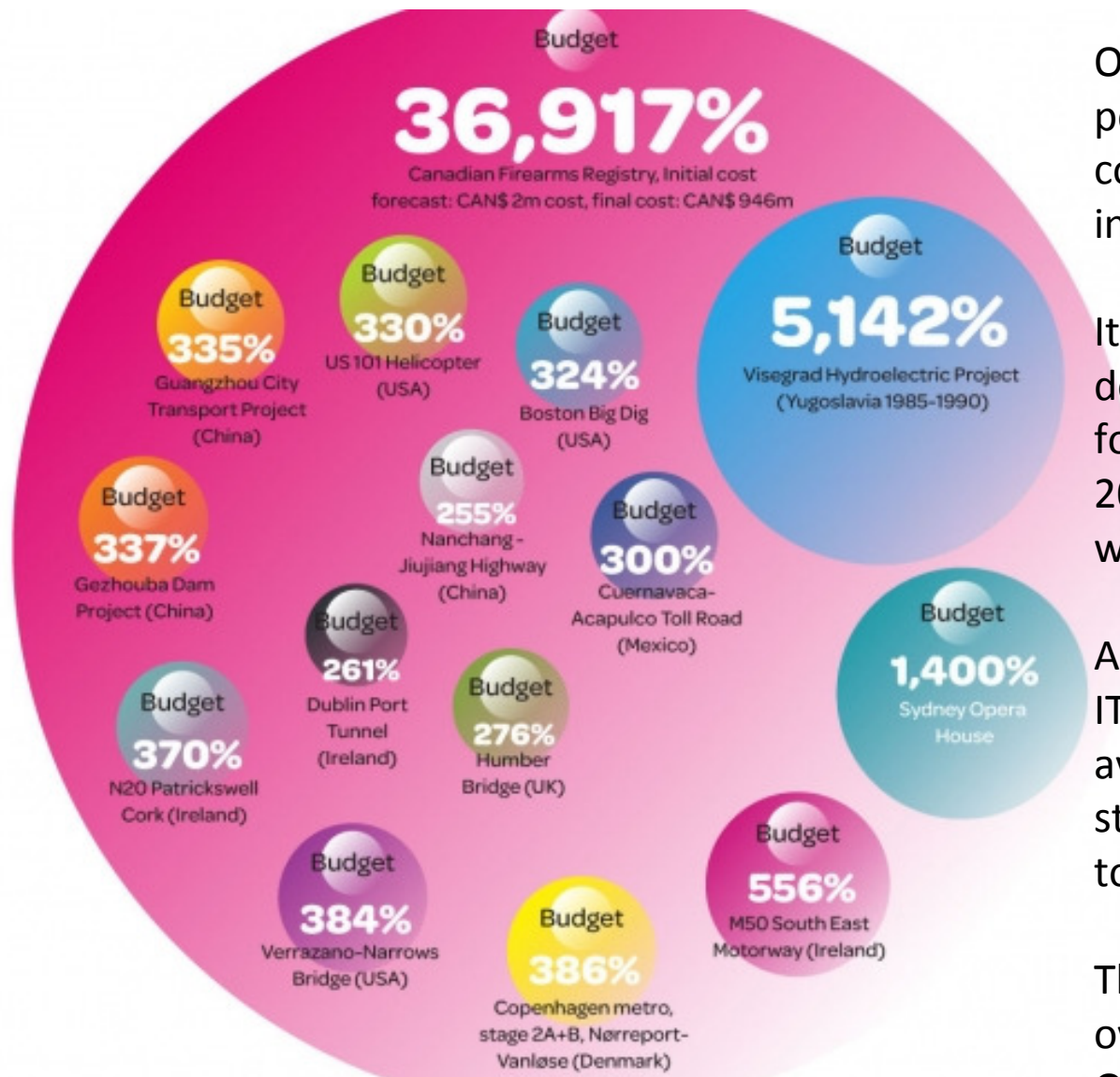
Finance for Project Managers and Team Members



- There is an expectation that with limited or no financial understanding or training, an individual can financially run a multi-million pound programme.
- Currently, financial training for those on projects, focuses on the lowest common denominator and does not improve the financial skills of the individual in respect of a complex and challenging project environment.



15 of the world's biggest cost overrun projects



Overruns in the order of 50 per cent in real terms are common for major infrastructure projects.

It is not uncommon for demand and benefit forecasts to be wrong by 20-70 per cent compared with actual development.

A study of more than 5,400 IT projects found the average overspend of the starting budget can top...**45%**

The average budget overrun for producing the Olympic Games since 1976 has been around...**200%**

Bent Flyvbjerg, professor of major programme management at the University of Oxford's Saïd Business School

Sources: McKinsey and the London School of Economics

What would an accredited course deliver?



- The key financial skills to deliver accurate and reliable projects outcomes.
- Project lifecycle financial management and associated interdependencies.
- An understanding of and an ability to practice Financial Management successfully in a project environment.
- Application of financial management best practice to deliver projects on cost with due consideration to deliverables and benefits.
- The fit to the “cost” modules of existing best practice methodologies.
- Targeted learning of best practice in financial controls.



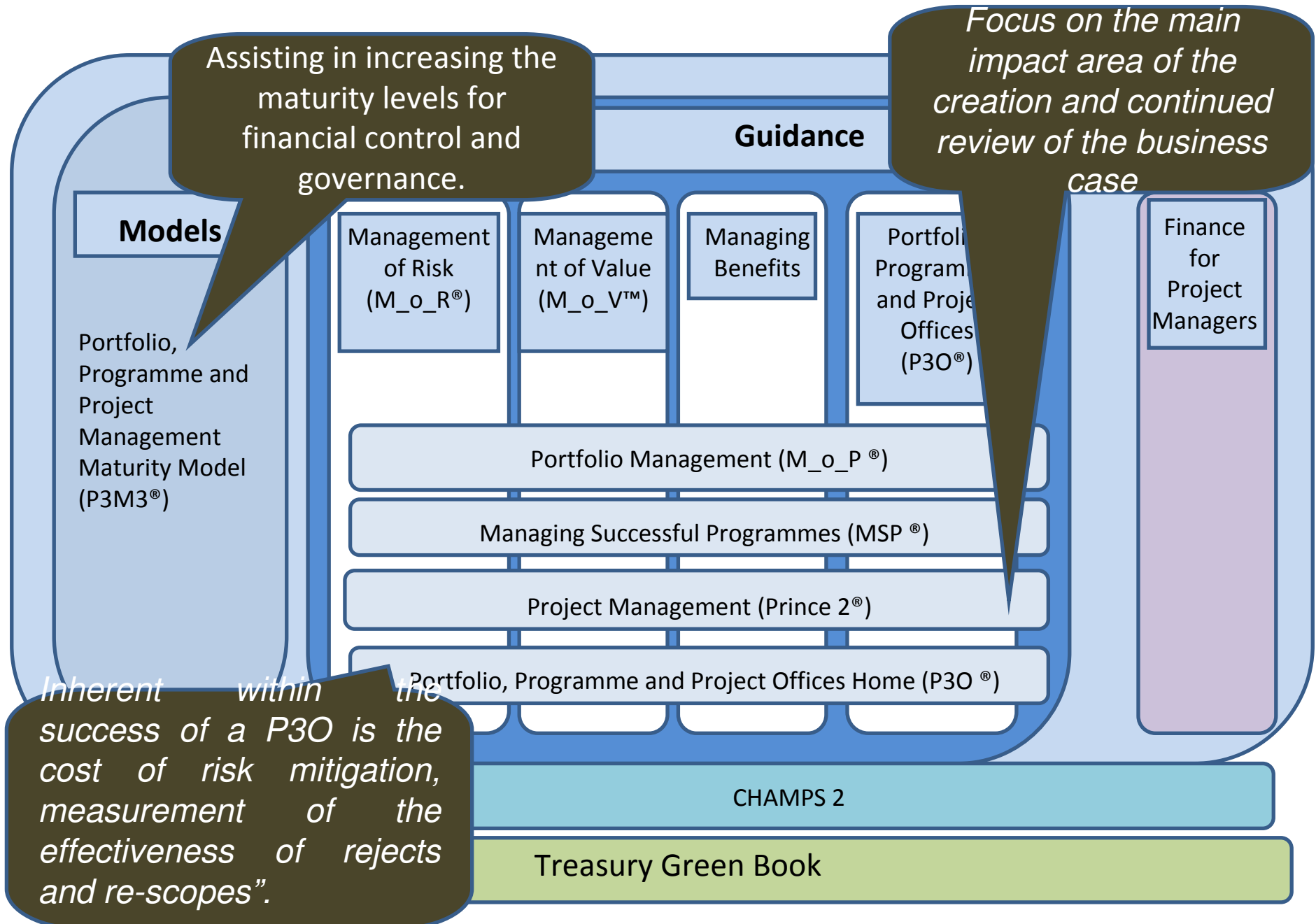
Outcomes of a complimentary method.



- Providing a core project oriented financial knowledge and capability base.
- Robust delivery of the financial and costing aspects within existing guidance.
- Assist the delivery of structure, principles, and interactions throughout the portfolio.
- To deliver the improved financial control by learning demonstrable best practice.
- Providing the core financial skills to enable successful implementation of “business case” and “benefit” methodologies.
- Increase the likelihood of the financial success of the project.



Complements and builds upon existing Best Practice



Exploring the White paper and the idea



Exploring the “White Paper”

Step 1 - Creating the Portfolio

Step 2 - Cost Estimation; (more on next slide)

Step 3 - Investment Decisions; (more on next slide)

Step 4 - Peer Responsibility

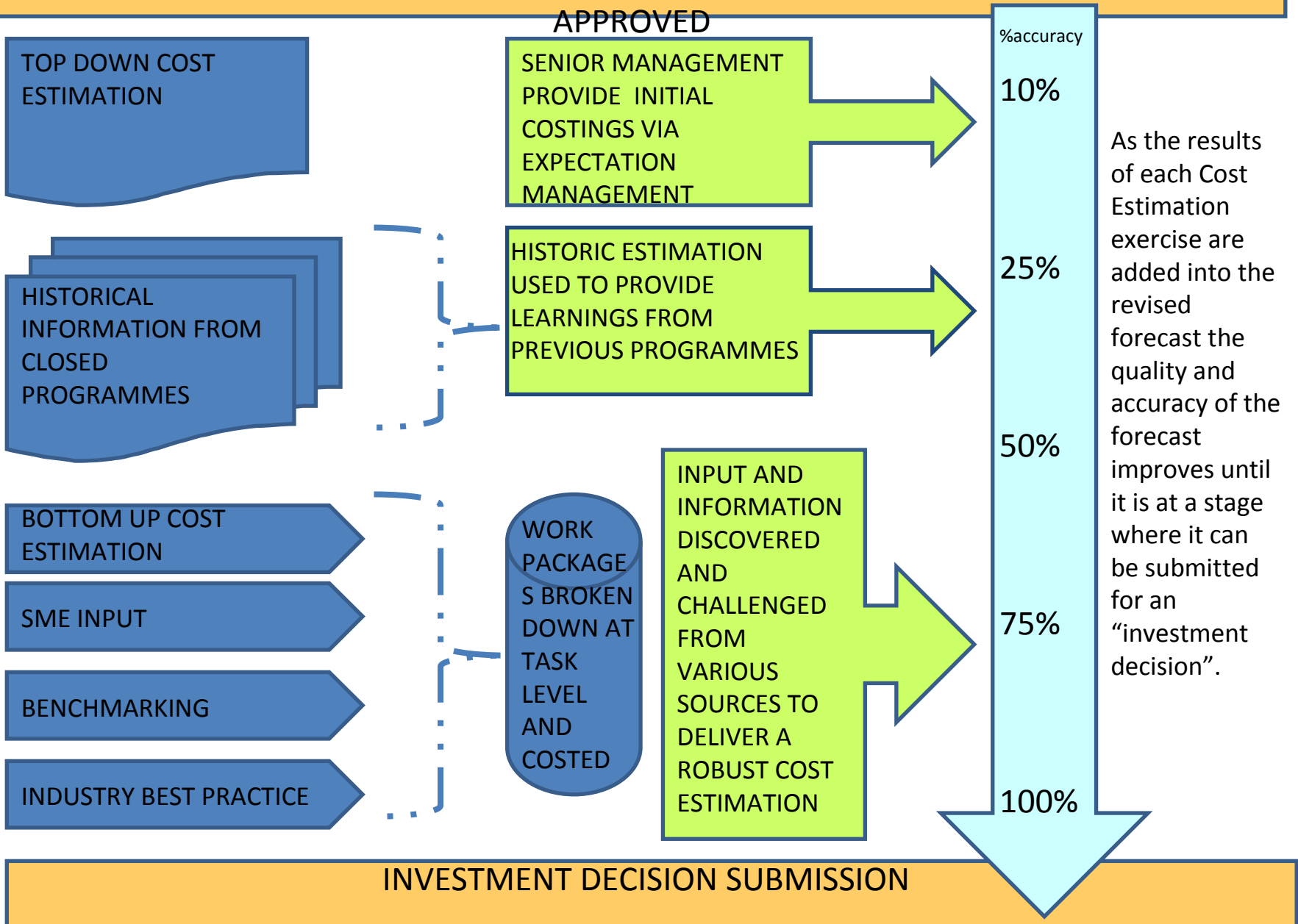
Step 5 - Improved Reporting, Governance and Control

Step 6 - Changing what you report, how you report and why
you report

Step 7 - Financial management of risk, issue and
opportunity



EXECUTIVE SPONSORED COST ESTIMATION – TIME TO DELIVER AND FUNDING



Investment decisions

- Create a project brief
- Score each brief
- Approval 1 – seed funding
- Challenge the costs, plans, timelines
- Build in improvements
- Approval 2 – repeat process until final approval

Exploring the “White Paper”

Step 1 - Creating the Portfolio

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Changing what you report



A 2007 survey commissioned by Business Objects from the Economist Intelligence Unit (EIU) found that;

9 out of 10 executives admit to making important decisions on the basis of inadequate information.

- 46% assert that wading through huge volumes of data impedes decision making.
- 56% are often concerned about making poor choices because of faulty, inaccurate or incomplete data.

Lord Bilimoria, founder and CEO of Cobra Beer,

‘You cannot make proper decisions without proper information.’



Changing what you report



Only 10% of executives report that the information to make a decision is usually there as needed.

Another 40% say “waiting for information to be updated is a common cause of delay in decision making”.

46% agree that having to process huge volumes of data slows decision making at their companies.

Source: Kielstra, Economist Intelligence Unit sponsored by Business Objects, September 2007

- Effective decisions are those that achieve impact.
- To make those decisions you need appropriate reporting.
- Reporting supports decision making.
- Strategic decisions must be based on quality reported information.



Exploring the “White Paper”

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Divine inspiration or financially manage risk



Financial Management of Risk, Issue and Opportunity (RIO)



RIO

“some financial companies had a weak understanding of the business models and risks they were supposed to be overseeing, and that ‘they were not receiving the right information to take good decisions about risk allocation and management’

Charles Tilley (CEO, CIMA 2010)



RIO

The management of RIO is pivotal to maintaining strong financial management.

Many programmes put considerable effort into identifying and understanding the risks and issues which affect them.....

but don't attach a financial cost or benefit reduction to them, reducing their capability to identify and manage budget challenges.



RIO

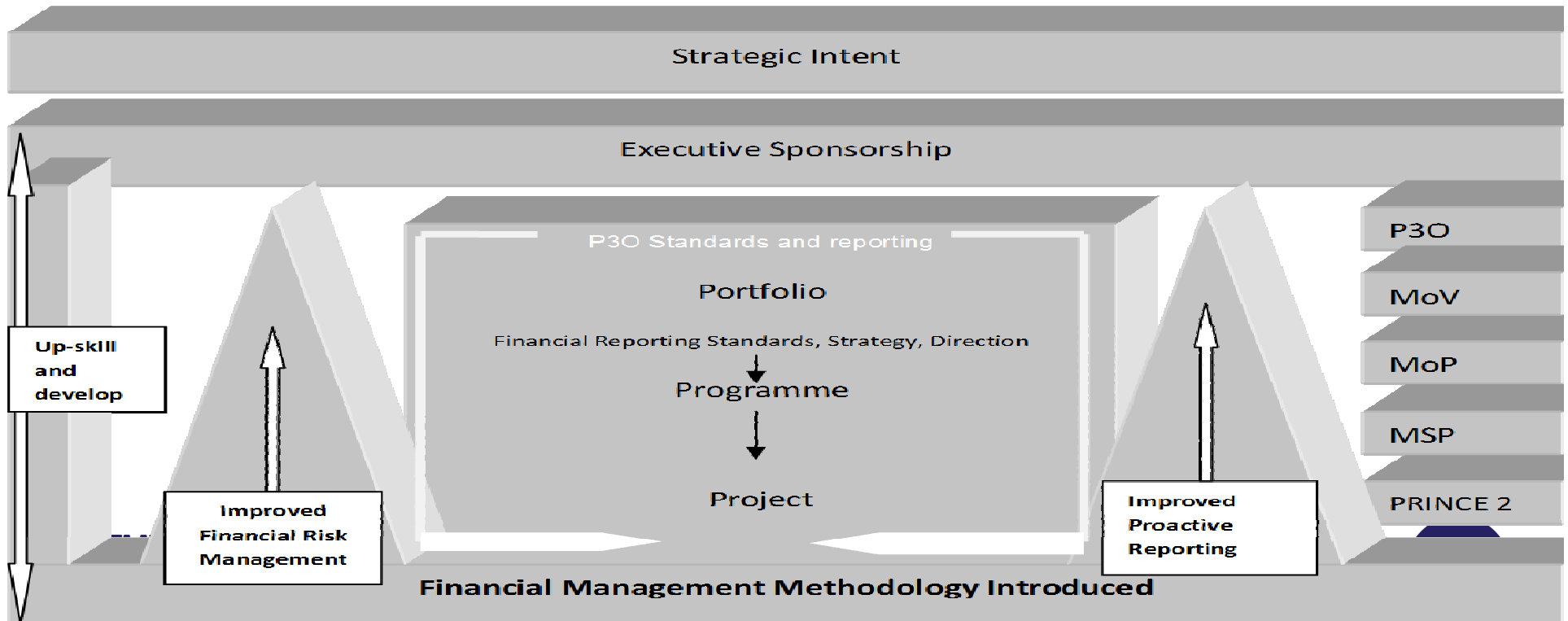
The cumulative overview of risk is at Portfolio level;
however, the Portfolio's Risk Management is only as
good as the risk and issue management process
implemented in the smallest project within the
Portfolio.



RIO

This continual flow of lower risks upwards to the Portfolio ensures the continued connection between the day-to-day operations and the strategic aims of the portfolio.

Diagrammatical Structured Financial Management Approach ; (CJM, 2010)¹



RIO

OUTPUT RATHER THAN INPUT

Cost Management is seen in many techniques and guides as an input into Risk Management.

This is wrong and risk management must be seen as an input into cost. There should be a two-way flow as follows:

- The cost and financial awareness of a risk must be included in the risk register when a risk, issue or opportunity is identified.
- A consistent approach to reviewing and monitoring all financial risk must be adopted to ensure continued protection of the strategic direction.



Unique Financial Management Best Practice



The aim is not to turn project teams into accountants,

***but** to provide them with the financial skills to meet the financial challenges of today's project environment.*

Finance - in the language of the Project Manager.

