VentureWork

Compensation for Success

Increase of Project Success due to variable renumeration for stakeholders.

IPMA Expert Seminar 13./14.02.2014, Zurich

Version 1.3
February 2014

Author: Joerg Roedle

Value for Customer
= Value of Success – Price

✓ Customer pays for success!

✓ Successful project management is fully coated[1]

! If there were negative deviations, less or nothing is paid

[1] Stober, D. PMP (2013): see “The PMO as a profit Center”, p. 4f

PPM influencing success

- ✓ PPM lead successful projects, who[24,25,26]:
  - ✓ Understand that there is no one-size/ one approach fits all
  - ✓ Hence adapt the leadership style and the methodology to the environment and program/ project endeavor at hand
  - ✓ Manage and develop teams
  - ✓ Know how to communicate
  - ✓ Age range 45 years plus
- ✓ Effective PMs those, who[27]:
  - ✓ Get things done
  - ✓ Deliver successful projects
  - ✓ Are in demand
  - ✓ Often have “something else”

[24] Joslin R.; Brasse M. (2012): p. 17.
[25] Müller, R., Turner, J.(2007).
[26] Dulewicz V.,Higgs MJ. (2003).
[27] Martinez-Almela, J. (2012): Behavioural and contextual competences; p. 17f.

Customer Problem

- High number of troubled and failed projects[28]
  - ✓ Knowing project success criteria and
  - ✓ Knowing PM competency profiles/ leadership styles and
  - ✓ Knowing the factors a PPM can influence success
  - **Why are so many projects not successful**?
- One reason:
  - Project /Programme/ Project Portfolio Management (PPM), Project Owners and other Stakeholders influencing the project are paid a **fixed annual salary or daily/ hourly rate**[29]
  - This provides **little incentive** to accurately implement the project in terms of cost, schedule, and quality[30]
    - Lower project costs are not honored
    - Shorter project durations are even punished

[28] Personal definition/ view based on practical experience.
[29] Personal definition/ view based on practical experience.
[30] Personal definition/ view based on practical experience.

Solution

- ✓ At least a **portion of the income should be paid variable** based on project goal achievement.
- ✓ Thus **fundamental interest to maintain project success criteria**[32].

[32] Personal definition/ view based on practical experience.

Uniqueness

- ✓ **Relatively low remuneration**
  of the PPM in comparison to the total cost of the project.

↓

- ✓ **This large leverage, performance incentives for PPM relatively high,**
  but relatively low compared to total project costs.

↓

- ✓ **Thus, win-win relationship between all parties**
  as PPM is maximizing his income is maximizing project success[33].

Example: 50 million € annual budget for manpower => 217.000 €/day
=> if 5 days delay and teamwork are prevented,
over one million € can be saved/ paid out as bonus !

[33] Personal definition/ view based on practical experience.

Basis of the Concept

- ✓ **"Earned Value" method**[34,35]
  as a reliable basis.

↓

- ✓ **Supplemented by findings of an MBA dissertation**
  to transfer project KPIs (cost, time, quality) to a single target size (financial value) [36].

↓

- ✓ **Deviations in form of a resulting financial value**
  are the basis to calculate the variable compensation part of the PPM.

⇒ **Formula:** x% fix **+ y% variable (function [cost, time, quality])**

- ⇒ Business Case[37,38]: Expected benefits, investment accounting, Negative side effects
- ⇒ PERT[39]: (Optimistic + 4 * most likely + Pessimistic) / 6
- ⇒ Estimate[40]: Conceptually -25%+75%, order-of-magnitude -10%+25%; Definitely -5%+10%
- ⇒ Simulation Models[41]: Event-risk, cost-risk

[34] PMI (2013): Project Cost Management; p. 217ff.
[35] ICB (1999): p. 41
[36] Roedle J. (2006).
[37] TSO (2009): Business Case; p. 21ff.
[38] TSO (2011): Business Case; p. 123ff.
[39] PMI (2013): Glossary; p. 553.
[40] PMI (2013): Project Cost Management; p. 200;. Glossary; p. 538.
[41] PMI (2013): Project Risk Management; p. 339.

Author: Joerg Roedle

Possible Formula - Software Development

90% * daily rate **+ 35%** * daily rate * [(SPI[45] (**Q**) ↑ 4) * (CPI[46] (**Q**))]

External (else: annual salary)

Incentive (moderate overweight)

Quality fixed (incl. quality, otherwise: SPI, CPI)

Time (weighted higher than costs, else: ↑ 1)

Bonus/Malus + high sanction, otherwise: [**0.8** * SPI (Q) + **0.2** * CPI (Q)]
or: [**4.0** * SPI (Q) * **1.0** * CPI (Q)] /4

SPI = Schedule Performance Index ; CPI = Cost Performance Index

Assumption: Ø SPI and CPI achievement of past projects app. 75% - 80%

[45] PMI (2013)
[46] PMI (2013)

Author: Joerg Roedle

Possible Formula - Y2K Programme

50% * DR + 150% * DR * (**CPI**[47], long as **SPI**[48] **>= 100% and Q>= LL**, else 0)

External

Incentive (high)

Costs only (CPI is the only variable)

Time fixed, i.e. NO variable payment as long as SPI < 100%

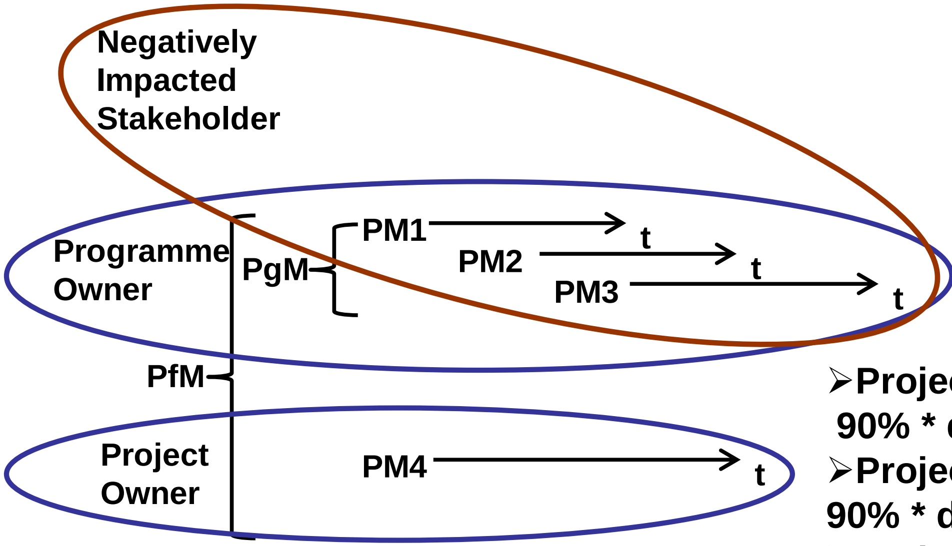
Quality quasi-fix, i.e. NO variable payment as long as Q is below the lower limit (LL)

DR = Daily Rate; SPI = Schedule Performance Index; CPI = Cost Performance Index

[47] PMI (2013): Project Cost Management; p. 218ff.
[48] PMI (2013): Project Cost Management; p. 218ff.

Author: Joerg Roedle

Success related Roles, Responsibilities & Formulas



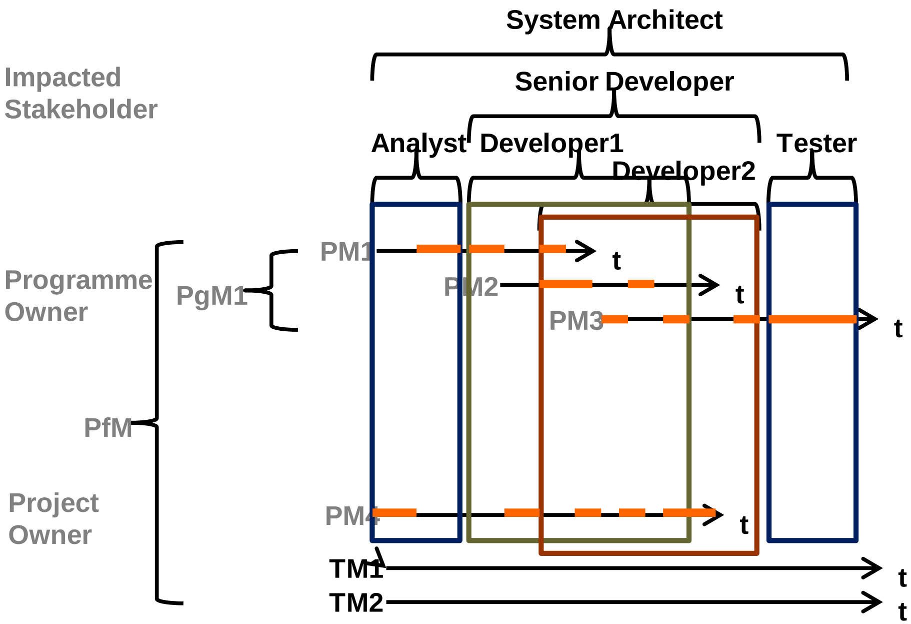
- **Project Manager 1 – PM1:**
  90% * daily rate + 35% * daily rate * [(SPI (Q) ↑ 4) * (CPI (Q))]
- **Project Manager 2 – PM2:**
  90% * daily rate + 20% * daily rate * [(SPI (Q) * (CPI (Q) ↑ 2)]
- **Project Manager 3 – PM3:**
  90% * daily rate + 35% * daily rate * [(SPI (Q) ↑ 4) * (CPI (Q))]

- **Programme Manager - PgM:**
  90% * daily rate + 28% * daily rate * [(SPI (Q) ↑ 3) * (CPI (Q))]
- **Programme Owner:**
  90% * annual salary + 28% * annual salary * [(SPI (Q) ↑ 3) * (CPI (Q))]
- **Negatively Impacted Stakeholder:**
  75% * annual salary + 70% * annual salary * [(SPI (Q) ↑ 3) * (CPI (Q))]

- **Project Portfolio Manager - PfM:**
  90% * annual salary + 30% * annual salary * [(SPI (Q) ↑ 4) * (CPI (Q))]

Author: Joerg Roedle

Performance related Roles, Responsibilities & Formulas



- Analyst; Developer1; Developer2; Tester:
  90% * annual salary **+ 17%** * annual salary * [(SPI (Q) * (CPI (Q))]
- Senior Developer:
  90% * annual salary **+ 17%** * annual salary * 1/3 * $\sum_{1}^{3}$ [(SPI (Q) * (CPI (Q))]
- System Architect:
  90% * annual salary **+ 17%** * annual salary * 1/5 * $\sum_{1}^{5}$ [(SPI (Q) * (CPI (Q))]
- Team Manager:
  90% * annual salary **+ 17%** * annual salary * 1/n * $\sum_{1}^{n}$ [(SPI (Q) * (CPI (Q))]

Author: Joerg Roedle

Summary of the Approach

✓ **Give PPM a formula and support** to be successful

References

1 Baccarini D. (1999): "The logical Framework Method to defining Project Success", Project Management Journal (December 1999).

2 Dulewicz V.,Higgs MJ. (2003): "Design of a new instrument to assess leadership dimensions and styles". Henley Working Paper Series HWP 0311. Henley-on-Thames, UK: Henley Management College; 2003.

3 Dulewicz V.; Higgs, MJ.(2005): „Assessing leadership styles and organisational context", Journal of Managerial Psychology, Vol. 20, No. 2 (2005), pp. 105 - 123. Available at emeraldinsight.com/0268-3946.htm.

4 Hyväri I. (2006): "Success of Projects in different Organizational Conditions", Project Management Institute , Vol. 37, No. 4, 31 – 41, ISSN 8756-9728/03

5 ICB (1999): IPMA Competence Baseline Version 2 (1999); G.Caupin, H. Knöpfel, P. Morris, E. Motzel, O. Pannenbäcker; International Project Management Association; www.ipma.ch.

6 Joslin R.; Brasse M. (2012): "Differences of Leadership Competencies (Program/ Project and Functional Managers) with the impact of Globalization", Swiss Program Management Conference 2012, Slide 13.

7 Joslin, R. (2013): "The impact of project methodologies on project outcome and its moderation through project environment", PhD Research Proposal (2013)

8 Kuen C.W., Zailani S., Fernando Y.(2009): "Critical factors influencing the project success amongst manufactoring companies in Malaysia"; African Journal of Business Management, Vol. 3 (1), pp. 016 – 027, January 2009, Available online: www.academicjournals.org\AJBM.

9 Lavagnon, A. (2009): "Project Success as a Topic in Project Management Journals"; Project Management Journal, Vol. 40, No. 4, 6–19 (2009) by the Project Management Institute; Published online in Wiley InterScience; (www.interscience.wiley.com).

10 Martinez-Almela, J. (2012): "Future Trends in Project, Programmes and Portfolio Management"; Proceeding page 13 - 20, SPM-IPMA Expert Seminar 2012, Zürich.

11 Müller, R., Turner, J.(2007): "The Influence of Project Managers on Project Success Criteria", European Management Journal , Vol. 25, No. 4, pp. 298 – 309, August 2007.

12 Müller, R., Turner, J.R.(2007): "Matching the Project Manager`s Leadership Style to Project Type", International Journal of Project Management 25 (2007) 21 35.

13 Pinto J.K, Slevin D.P.(1997): "Critical factors in successful project implementation"; IEEE Trans. Eng. Manage. EM-34(1) 1997, pp. 22 – 27.

14 PMI (2013): "A guide to the project management body of knowledge; PMBOK Guide - 5th edition" (2013); Published by Project Management Institute, Inc.; Pennsylvania, 19073-3299 USA.

15 Roedle J. (2006): "An investigation into the financial factors to evaluating IT sourcing projects in order to maximize the value of a company". Published by the University of Liverpool 2006.

16 Silvius A.J.G. (2012): "The Competences of the Project Manager in 2027"; Proceeding page 101 - 117, SPM-IPMA Expert Seminar 2012, Zürich.

17 Stober D. PMP (2013): "Emerging Expert Reference Series of White Papers: Trends in Project Management", Global Knowledge Training LLC , 1-800 Courses, Page 4, www.globalknowledge.com.

18 Turner, R. (2012): "Behavioural and contextual competences", Proceeding page 48 - 56, SPM-IPMA Expert Seminar 2012, Zürich.

19 TSO (2009): "Managing Successful Projects with PRINCE2", p. 40; p.352, Version 5 (2009). Published by the Stationary Office (TSO), and a registered trade of Cabinet Office

20 TSO (2011): "Managing Successful Programmes", 38; p. 287, Version 4 (2011). Published by the Stationary Office (TSO), and a registered trade of Cabinet Office.

21 Roedle, J. (2013): Personal definition/ view based on practical experience in absence of any formally recognized definition/ citation.

Author: Joerg Roedle