

Project Management: Using Data to Increase Profitability and Reduce Risks

By Curt Finch, CEO, Journyx

Project management data – which is obtained from time tracking information – is often an area that could be improved in many companies. Recent studies (1) have shown that cost reductions of 6.5 percent are common from improvements in tracking time from the project management area alone. This compares with improvements of about 5 percent for billing automation (1) or 1 percent for payroll automation (2).

Time tracking data (payroll, billing, project management, and strategy) can be used to improve project management in the areas of:

- Costing- How much have we spent?
- Tracking - Are we done yet?
- Management - What should we do next?
- Estimation Improvement - How much is this going to cost us?
- Sarbanes-Oxley Act- Are IT capitalization costs and revenue recognition numbers accurate? Or am I going to jail?

Costing

If a time tracking system supports pay rates and pay rules, such as overtime calculations, it can provide extremely accurate per-project cost data. If not, a record of hours worked per project is still a powerful indication of cost if an average hourly cost per employee can reasonably be applied.

Tracking

Most project time-tracking systems support some way of indicating what percentage of each project is complete. Combined with the cost data described above, this can create an early warning system for projects that are going out of control. If you've spent 45 percent of the money allocated for a project, but are only 10 percent done, it's time to hit the panic button.

Management

Any project time-tracking system that is worth its salt will be able to limit an employee's or department's visibility into the project list. An employee confronted with 500 entries on his timesheet will usually enter bad data. Pushing this burden up to an administrator will vastly improve data accuracy. You can also use this mechanism to assign people to projects, limit hours on projects, and see who has been assigned to which tasks.

Estimation Improvement

Expensive and complex portfolio planning systems are designed to help you refrain from starting projects you don't have the resources to finish. They can save you lots of money but their Achilles heel is bad estimates. Time tracking can be particularly helpful in estimation improvement when many of the projects in your company are similar, and they usually are.

For example, if your company develops custom software for customers, there is always a requirements phase on the front end. Studies by Hewlett-Packard (3) have shown that 6-10 percent of the project cost for such projects is usually in this first requirements phase.

Detailed time tracking data shows the cost of the first phase of a project. If the cost is 10 percent and you've spent 100 hours gathering requirements, then any estimate far from the 1,000 hour mark should be reexamined. Furthermore, 10 percent is probably the wrong number for the projects in your company, so your mileage may vary. But historical time data will give you important insight into what this average is and how variable it is, and therefore, how to perform that calculation.

Sarbanes-Oxley Act

Affectionately (right!) known as SOX, the Sarbanes-Oxley Act applies to publicly traded firms, and firms that do business with the federal government. The Act states that CFOs and others involved in the finances of the company - which means just about everyone - will be penalized if the books are inaccurate, including potentially going to jail. This remains true even if there is no ill intent or the mistakes are accidental. The law is so strict because proving intent is so difficult in this arena.

Project time-tracking systems solve the most important problems presented to financial professionals by SOX at a very low cost. As shown above, these systems also save the company a great deal of money by finding broken projects faster, improving estimates and providing real-time visibility into costs. For a much higher price tag, companies like OpenPages attempt to address a larger array of the problems associated with SOX compliance.

Project oriented time-tracking systems verify that capitalized IT, engineering and software development costs that are amortized, or depreciated over time in the company's financials, are correct. Most companies are just guessing at these costs today. These systems also validate that services milestone billings sent to customers are based on actual project completions. Therefore, revenue recognition issues with regards to these types of revenues are accurate in the books.

Then, of course, there is managing the SOX compliance project itself and understanding how much this compliance is costing you. Tracking your time does that, too. Ultimately, SOX is about understanding your processes and putting controls in place to mitigate risks. A good project time-tracking system will do that.

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(1) Journyx Timesheet 2003 customer survey data.

(2) American Payroll Association study.

(3) "Practical Software Metrics for Project Management and Process Improvement" - Robert B. Grady