Financial and strategic management of projects

Finance

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Introduction Project management can be defined by explaining the terms ‘ project’ and ‘ management’. A project is a group of tasks or activities that requires effort to accomplish. Management is “ systematic process of systematic process of planning, organizing, leading, and controlling” (Zee, 2002, p. 18). Therefore, in project management, the group of tasks ate managed in a systematic way for successfully accomplishing. The financial aspect in a project management is one of the most critical areas that should be managed very carefully is systematic way. This will attempt to present strategic financial management in a project. Question 1 Please discuss cost and financial monitoring systems and their value in project management Financial monitoring and control system includes a number of finical activities like financial planning, accounting, financial reporting, internal financial control etc. In case of a project management, the financial monitoring systems strives to offer effective tools for project appraisal, financial planning & forecasting, budgeting, In order to achieve the goal of a project proper control is necessary for making decisions, increasing the management efficiency and for managing the financial risk (Sears, Clough and Sears, 2008, p. 259). The importance of effective financial monitoring is quite significant due to three reasons i. e. to avail necessary financial information which are useful for the supervisors of project; to detect and prevent fraud and corruption through internal control; and proper use of the invested capital and achieve higher return (The World Bank, 1999, p. 9). Question 2 Please discuss project risk categories encountered in projects arising from estimation errors, major rework needs, unexpected schedule, logistics problem, etc. Please also discuss specific ways to address them from a financial perspective. In the course of project management, a project is exposed to a number of risks. Mainly four major categories of risks are there i. e. technical or performance risks, organizational risks, management risk and external risks. The risk breakdown of these four categories is given below. Figure 1: Risk Breakdown Structure (Source: Heldman and Baca, 2006, p. 172) Each of the above risks has a direct or indirect impact on the financial profitability of a project. However, as these risks are potential treat for financial results, proper financial planning can be helpful to avoid the negative impact on profitability. In this regard, Heldman and Baca have mentioned regarding the profitability and impact matrix and these are helpful in determining the risk reduction programs. They have also commented that " a risk with a high profitability of occurring and a high impact will likely need a response plan" (Heldman and Baca, 2006, p. 173). Question 3 Please discuss best practices to take account of changes or adjustments that become necessary in projects for reasons earlier discussed. In the earlier section, different types of risks have been mentioned which are exposed to a project and their impact on the level of profitability. Therefore, it is quite justified to state that a project is vulnerable in respect of financial risks. Therefore, to manage the major risks, a project manager must focus the financial risk management and its strategies. In case of project management, there are a number of the techniques for identifying and managing these risks. Risk assessment is one of the best practises to take account of changes or adjustments. Risk assessment includes three major elements i. e. identify uncertainties, analyse risks and prioritise risk (Tusler, 1996). To conduct an efficient and effective risk assessment Heldman have specified certain techniques for the purpose of indentifying, analysis and prioritising. These techniques are documentation reviews, information gathering techniques, checklist analysis, assumptions analysis and diagramming techniques (Heldman, 2009, p. 242-245). Question 4 Explain the meaning and value of Earned Value Management (EVM). What is included in an EVM baseline? What concepts does EVM bring together in project management? ‘ Controlling’ is the one of the prime task in project management and hence, the mangers use effective techniques for controlling. Earned Value Management (EVM) is the most popular and widely used techniques for controlling a project. “ EVM is a systematic approach to the integration and measurement of cost, schedule, and technical (scope) accomplishments on a project or task” (Solanki, 2009, p. 1). EVM also helps in measuring the progress of a project against a baseline. EVM baseline primarily focuses on five major parameters for project measurement, and these parameters are “ Budgeted Cost for Work Scheduled (BCWS)”, “ Budgeted Cost for Work Performance (BCWP)”, “ Budget at Completion (BAC)” and “ Estimate as Completion (EAC)” (Franch and Port, 2005, p. 14). Question 5 How would you measure project performance variances from the EVM baseline? Performance based earned value is very effective in overcoming the technical and performance gap. Measurement of the deviation of the actual performance from the planned or projected performance is the major technique for Performance based earned value. In this respect, two schedule variance and cost variance can be measured to determine performance. To determine these two variances, three inputs are required i. e. earned value (EV), planned value (PV), and actual value (AV). The difference between the EV and AV is known as the result, greater than 0 implies better performance. Schedule variance is the difference between EV and PV and it should be more than 0 for better schedule performance (Phillips, 2006, p. 281). Question 6 Do you think that earned value can be used in your organization right now? If you do, please explain how. If not, what might be the obstacles in your organization that hamper its use? Implementation of the earned value management within an organization is a challenging task and requires certain specific criterions for overcoming the major obstacles. Therefore an organization must possess certain features and strengths for successful implementation of EVM. Some of major obstacles of EVM implementation are given below. EVM requires high capital investment. EVM is not effective for Small organization engaged short term project. EVM requires high management techniques that are not available in many organizations. EVM system often produce backward looking data which too old to be effective. Performance variances measurement techniques are not effective as variances are quite obvious (Cha, and United States. Government Accountability Office, 2009, p. 208). Conclusion This paper has presented a discussion on the project management by focusing on the most popular project management technique, Earned Value Management (EVM). The prime necessity for implementing such complicated and effective project management tools is for managing and controlling performance of a project. Financial aspect is the most effective ways of evaluating and measuring the performance of project. EVM technique is can termed as financial management tool that makes visible the actual performance by comparing the earned performance and planned performance. Reference Cha, C. and United States. Government Accountability Office. (2009). GAO Cost Estimating and Assessment Guide:

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