

Earned value management

Technology, Information Technology



Earned Value Management Earned value analysis measures the progress of a project at any given time; it analyzes the budget, forecasts the date of completion and its final cost. It also analyzes variances as the project continues. Earned value analysis gives a comparison between the planned work and what has been completed with an aim of determining if the schedule, cost, and work done are in line with the designed plan. Work is considered to be earned after completion. It is used as a tool of management since it ensures that work is well planned in advance. Earned value management therefore helps one to know whether the cost will be greater or less than the estimate and even the time of completion of the task at hand. Work should be broken down into small elements that are appropriate for planning, scheduling, budgeting, progress measuring, cost accounting, and management control. According to Paul & Young (2006), earned value management is aimed at measuring the progress of an activity against a clear baseline. There are three main values calculated for an activity in earned value management. These include; the planned value (PV), the actual cost (AC) and the earned value (EV). To start with, the planned value is referred to as the budgeted cost of the project's work scheduled. The portion of the cost approved is used for a given activity within a specified period of time. Suppose there is an activity that entails installing of a new server after purchasing. If for instance, it will take one week according to the plan and cost \$30, 000 for the hardware, labor hours and the software that is involved. The planned value in this case will therefore be \$30, 000 for that week. The actual cost (AC) on the other hand is referred to as the actual cost of work performed. According to Ray (2006), actual cost precisely refers to

the total costs incurred in completing the entire work on an activity for a given period of time. This cost ought to correspond to the budget for the planned value in terms of equipment, material, labor, and the indirect costs. If an activity of installing electricity in a business building costs \$80, 000 after its completion then the actual cost is \$80, 000. The earned value (EV) is referred to as the budget cost of work performed (Gary 2001). This is the value of a project that is actually completed. Let's say for example, a project has a budget cost of \$200, and by a given time it is 40 percent finished. The earned value is therefore \$80 but scheduled value at that point is \$100. This clearly indicates that the project is behind schedule since less value has been realized as compared to what was planned earlier. Let's also assume that the projects actual cost at a given time is \$120. This implies that the project is over the budget since the planned cost is less than what has been incurred. If such discrepancies between earned value, actual cost and planned value are realized early then it becomes easier to come up with measures to solve the problem. In conclusion, the establishment of budgets to different tasks within a given project results in a clear plan that guides the performance within a given time frame. This should be established in good time once the project's commencement is issued. It is also important to keep on evaluating the project to see whether it is within the cost and time frame.

References:

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