

# PROJECT TIMES

Exploring the World of Project Management

## How to Increase Profitability with Project Accounting

By Curt Finch

The era of manufacturing and farming is giving way to one of knowledge work. This is old news to many of us but, in our lifetime, the changes that the developed world is undergoing will be visited on the vast majority of humanity. Nearly everyone will be some sort of knowledge worker.

By knowledge worker, I mean anyone who primarily works with information as opposed to people who actually alter things in the physical world. A person who assembles cars is not a knowledge worker. A person who sits on a chair and programs a robot to assemble cars is a knowledge worker. Most people in the developed world these days sit in front of a computer all day. They are knowledge workers.

### Accounting for Knowledge Workers in the New Millennium

In the human race's 30 millennia history, only in the last 50 years have we seen the cost of knowledge workers rise to be a significant portion of the economy. In 2003, 48% of the U.S. workforce fell into the knowledge worker category. These numbers are growing and, in our lifetime, will encompass the majority of workers globally. Think about what your parents and grandparents did for a living. Chances are they were farmers or factory workers for at least a portion of their careers, not knowledge workers. Demand for project and portfolio management (PPM) solutions, which often incorporate some project accounting abilities, is growing at 11% annually.

So why all this interest in project and portfolio management, time tracking and project accounting solutions?

Our hunter/gatherer ancestors implicitly knew the costs of doing business.

Materials-oriented businesses, like manufacturing and farming, have had effective accounting systems for thousands of years. Companies like Wal-Mart, Dell, and ADM exemplify how well the problem of materials management is already solved.

Knowledge, process and project management, however, are still relatively nascent fields. Project accounting is how we understand production costs in a knowledge economy. The knowledge worker-dependent businesses of today, though, are relatively new and, for the first time since accounting was invented by Babylonian farmers thousands of years ago, nobody knows their costs. If you don't know your costs, you don't know where you're profitable. And if you don't know where you're profitable, you can't steer your company to success. In the knowledge economy, understanding production costs requires a new approach.

### Impediments to Success

The biggest impediment to success in project accounting is employee resistance to data collection. But why do people hate to track their time so much?

**Reason #1** Reporting time can threaten status.

For salaried people, especially if they have been employed earlier in their life in an hourly "time clock" environment, reporting time can make them feel demoted. Conventional wisdom (that this author disagrees with) is that "professional" people are more trustworthy and less in need of supervision than "blue collar" people.

**Reason #2** "What if I find out that I don't work as much as I like to think?"

Some people, often the most productive people, garner self-esteem from the large number of hours they work. But sometimes they're not sure if they believe their own braggadocio and the thought of finding out the truth is scary.

**Reason #3** Time is a bad metric for effort or productivity.

Knowledge workers know that managers, who have the power to reward some people over others, often forget the vague and aggregated metrics of real productivity in favor of some simple numbers that are tangible, like time records. Managers may take the easy path of rewarding employees based on time spent rather than develop more subtle and appropriate metrics of real productivity (hint: don't do this).

**Reason #4** "I'm too busy"

The most responsible, busy employees - the most productive ones whose time is in highest demand - will, sooner or later, always have to stop doing the primary mission of the company to fill out a timesheet. The star employees tend to procrastinate over this task, subordinate it or even refuse to do it. Or worse, they'll create flawed records. On the other hand, the malingerers and marginal producers will often create perfect time records and never submit them late. This fact of life creates an impression in the minds of both that the whole exercise is worthless.

## Remedies for Impediments

**Education and Buy-In** - The most effective way to get people to do anything is to make sure they understand what's in it for them. In the case of payroll for hourly workers, since they want to get paid, it's easy. In the case of billing automation, it's revenue for the company, i.e. a successful company. Most people can understand this. Most people care that their company succeeds.

Project accounting is more abstract. Bad project accounting leads to unnecessary overtime, stressful blown schedules, bad estimates and cancelled projects. Relating specific examples from your company in which good time collection could have prevented problems helps to get them on board.

**Adoption Dashboard** - It helps to include graphs that make clear to managers which departments and people are entering their time consistently and completely, and which are not. This helps managers understand early who they need to badger about getting their time recorded (or who to reward for doing a good job in this area).

**Phased Rollout** - Adopting a multiphase rollout approach that leads to per-person per-project profitability allows you to change the culture in more manageable steps.

**Incentives** - Tying bonuses or other benefits to complete data collection is often used in CRM tools to adjust sales commissions. The same can be done for other forms of data collection. Journyx has a patent - we call it the 'frequent flyer patent' - for rewarding your employees on your behalf automatically for timely time reporting.

**Email Reminders** - Getting an automated reminder when your time has not yet been recorded produces results. Usually!

## Implementing Project Accounting

If you have more than about five people in your organization and they are working on many projects or within many processes, it is time to start thinking about implementing time tracking. If you have 100 people in an R+D group and you're not tracking time, then you're wasting the lives and work of a significant percentage of your

employees.

You have them working on projects that the market will not reward you for or, which are over budget or otherwise in the ditch, and you don't know that today.

Steve Covey argues persuasively in his book *The Seven Habits of Highly Effective People* that you should track your time even if it's just for yourself. If you do, you will certainly be surprised by the data. However, we have found that the business value really starts to get delivered in terms of understanding profitability for organizations of at least five people. Guiding your company forward to a tracking environment requires changes to culture. Start by explaining the benefits to the company of doing this. If you understand your costs you can run your business profitably. Otherwise you're flying blind.

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