

The Role of the Project Manager for Reducing the Project Risk - Developing an Internal Control System

Liliana Ivanova¹

Abstract In this paper the instructions for preparing camera ready paper for the Conference ISCKS 2008 are given. The recommended, but not limited text processor is Microsoft Word 97/2000/XP. The global instructions for preparing paper with any text processor are given, too.

Keywords - Camera ready paper. Proceedings of papers, ISCKS 2008.

I. INTRODUCTION

Project management in Bulgaria is getting more and more established not only in the typical business fields – construction, telecommunications, information technologies, but also in the government administration, NGOs, educational institutions, etc. This natural tendency for growth of the interest towards project management may be explained on one hand with the proven high efficiency when using project management on the world scale (the application of the project management methodology helps for achieving the planned results and objectives within the estimated time and budget) and on the other hand with the increase of investments in the business and the greater opportunities for financing under European programs.

Project management is a new and quickly developing field of science; however, it is still not applied to its full thoroughness and specificity in Bulgaria. To a great extent this is due to both the lack of sufficiently qualified specialists and the lack of existing traditions in this field. Therefore, recently, one of the current and serious questions in the field of project management in Bulgaria is: How can we increase the projects efficiency? The necessity of seeking a solution to this problem is increasing also due to the alarming data constantly announced by the media – Internet, the press, television, conferences, regarding the results of the projects in our country in general. Yet, the number of failed projects (the ones stopped for any reason) and the problematic projects (the ones that cannot achieve their objectives within the prescribed estimated resources, budget and deadline) is much too high as compared to the successful projects.

Considering this statistics and the tendency for applying more and more project management both in the economic and non-profit organizations in the country, it is only natural that the project managers seek and focus their attention on the factors, which determine the probability for success of the projects that they lead. However, simply knowing these factors is not a sufficient condition for the realization of a successful project. The obligatory condition for each project manager is that he/she be able to identify different factors and

¹Liliana Ivanova is with the Department of Management, University of National and World Economy – Sofia, Sofia

keep track of their effect on the project. In other words, to develop, implement and maintain an efficient internal control system during the progress of the project.

Apart from helping for the achievement of the identified objectives, the introduction of such an internal control system will lead to benefits to all parties in the project. First of all, the project assignors will have full and unbiased information on the status and progress of the overall project; they will know how the planned activities are developing in time; they will be able to keep track of the reasonable use of the resources and will have realistic expectation as to what degree the quality indexes are within the limits of the admissible parameters. Secondly, the project managers will constantly be able to observe the actual realization of the project; they will be able to compare the current results to the prescribed plans; they will be able to identify in due time any deviations and undertake duly measures for preventing or solving any problems. The managers will be able to take correct decisions based on better interaction with the project team. And last but not least, such a system will be useful also for the project contractors, which would be able to receive regular feedback as to how well they are doing and what is necessary for improving their performance.

For efficient development of an internal control system, the project manager should seek answers to the following three questions:

1. What does application of internal control during the progress of the project realization mean?
2. What are the requirements for developing an internal control system?
3. What is my role in this process?

What does application of internal control during the progress of the project realization mean?

II. INTERNAL CONTROL

The successful application of the initially prescribed plan in the Realization Stage of the project's life cycle is always prevented by accidental effects, which are difficult and sometime even impossible to forecast. Internal control is required for having current information about the possible deviations due to these effects.

In general, the term internal control may be defined as a combination of information about the subject of control. All managers perform such control within the limits of their functions. In particular, internal control in the field of project management may be defined as a constant process that includes collecting and analyzing information during the progress of the overall project for taking management

decisions, focused on the successful achievement of the project objectives.

The international organization of the Supreme Audit Institutions INTOSAI gives the following definition to the term internal control:

“Internal control is an overall process, in which the management and personnel take part. Its purpose is to provide reasonable confidence that in the progress of realization of the organization’s mission the following common objectives are achieved:

- performing proper, ethical, economic, efficient and effective activities;
- performing the obligations regarding the accounting;
- observing the applicable laws and regulations;
- protecting the resources from loss.”

Considering the above definition, it could be summarized that internal control is a complicated and dynamic process, with main goal – efficient and effective achievement of the prescribed project objectives. Therefore, the internal control efficiency will depend to a great degree on the professionalism during identifying the project objectives. This, on its part, presupposes monitoring of the realization of the different project activities. If necessary, based on the obtained results, corrective actions could be undertaken. By means of the internal control, the manager could minimize the project risk.

The three main forms of practicing internal control are: preliminary, current and closing.

The first type of control is called preliminary because it is performed until the actual beginning of the project. During this stage, the rules, procedures and norms for behavior should be identified, which will secure the realization of the project. Furthermore, a list of the required resources should be made; all activities required for the achievement of the project’s objectives should be defined. A schedule of certain important moments is to be made and last but not least, the quality standards for the product or service, created as a result of the project’s realization, are to be determined. Thus, the project manager has a clear picture of the parameters that he/she needs to control in the progress of the project and also the project manager will be sure when the project is developing in the right direction.

Preliminary control is usually used in three key project fields – human resources, material resources and finances. In terms of human resources, preliminary control is focused on inspection of the available required professional qualities and skills of the project team for the realization of the assigned objectives and tasks. The preliminary control of material resources is required as far as the quality and efficiency of the work should be ensured. An important instrument of preliminary control of finances is the introduction, discussion and acceptance of the budget. This is important because it ensures the project manager confidence that when funds are needed he/she will have them. Clarifying the finances in the initial stage of the project helps for better account of the funds and for tracking the economies and surcharges during each stage.

Preliminary control is a key element because the information received at this stage is to a great extent a reference point for the progress of the overall project.

The next type of control is current control. As its name implies, this type of control is performed during the progress of the project realization. This is constant control. The subject of the current control is the work of the project team, and the very project team is one of the project manager’s main tasks. Generally, during the progress of the project, the following quality characteristics are being controlled – time, scope of the work and value, and the departures from the project’s schedule, quality changes, spending the budget are more closely observed. The current inspection of the project team’s work, the discussion of the problems and proposals for improving the work prevent deviations from the prescribed plan. If these deviations are allowed to develop, they may grow into serious difficulties for the realization of the project. Current control is not performed all the time during the realization of the project. Instead, it is based on measurable results, received after the completion of a certain stage for the achievement of the desired objectives.

The realization of current control includes measuring the progress for achieving the project objectives and undertaking corrective actions for returning the project to the prescribed parameters.

The last, closing control has two main functions. The first one consists in the fact that this type of control provides information required for the planning of similar projects, expected to be realized in the future. The second function consists in the opportunity for increasing the motivation of the participants in the project and their final satisfaction. This would be possible if the assessment of their work at the end of the project adequately and objectively reflects and assesses their contribution.

The main goal of the closing control is to compare the prescribed and actually obtained results after the completion of the project and based on this comparison to identify specific measures for improving the efficiency of any future projects.

III. INTERNAL CONTROL SYSTEM

The efficient internal control system is an important element of the management of any project. The very implementation of the internal control system, however, does not guarantee to a 100% the achievement of the project’s objectives. There are many factors which could have a general negative effect on the project. On one hand, these are factors, which are beyond the project manager’s control, such as competition, adoption of new laws, technological level, general economic situation, etc. On the other hand, it is also important to consider the fact that to a great extent internal control depends on the human factor, and the possibility for showing subjectivism in the judgments is not to be eliminated. Therefore, there is always a risk of inaccuracies in the judgments or interpretations, errors from misunderstandings, overwork, stress, negligence, distraction. Introduction of an internal control system, which could fully eliminate the risk from losses, is first of all impossible and second, even if there

is any chance to do this, it would probably cost much more than the benefits would justify. Hence, the benefits of control should be discussed also in relation to the costs for achieving them.

Therefore, the benefit from the introduction of the internal control system for achieving the objectives of the project can't be so easily measured and assessed. What is sure, however, is that it has a very important role for the quality of the realization, the authenticity of the accounting, the distribution of the resources, the quality of the decisions made... Moreover, the introduction of such a system gives structured information about the progress of the project team regarding the achievement of the objectives and lack of any success in this respect. There are, however, very important moments, which should be taken into account when assessing the end benefit from the application of such a system. First, it should be assessed to what degree the requirements for its development are met and also the contribution of the project manager to the efficient development and implementation of the internal control system should be considered.

Conclusions regarding the effect of the application of the internal control system can also be made based on the experience of the project managers, who have implemented such systems in the projects that they manage. Here are some of their comments regarding the benefit from the internal control system, given during interviews for the aims of the report.

Personal experience*:

„With the years I have realized that the internal control system is not complete if it does not comprise the work of all participants in the project, irrespective of their specifics.”

„The internal control system is required for one aim only – efficient project management. For me, using it helps me in five main tasks: 1. Ensuring the reliability of the information; 2. Protection of the assets; 3. Efficient use of resources; 4. Ensures control of the realized work rules and procedures and 5. In general, it helps for achieving the project objectives.”

„The main problem that I met in introducing an internal control system was the lack or more precise formal description of the internal work rules and standards. So my first task was related to developing and introducing such standards and only then could I say that the control system started working as an actual tool for organization and management of the work under the project.”

„Efficiency of the application of a control system depends on the following factors: precise distribution of the tasks and responsibilities in the team; clearly divided access to information and resources; available documented procedures for work and in general all actions should comply with the adopted regulations.”

„It seems like a great part of the project managers still do not realize the necessity of an official introduction of an internal control system. I can explain this with the fact that the effect of the implementation of an internal control procedure cannot always be obtained instantly and sometimes even the very introduction requires a lot of efforts and time. Of course, whether these efforts will be made or not depends a lot on the type and specifics of the project. The project that I lead is long-term and the introduction of such a system came as a

result of the necessity for introducing a quality system (ISO 9000/2001). Of course, it cost lots of efforts for me too before we reported the first results – economies of about 5-8%. I think it was worth it. In the beginning it looks difficult, almost impossible, but later on these efforts are repaid many times.”

Based on the shared experience we can summarize that the introduction of an internal control system is a long process that requires a lot of knowledge, skills, efforts and persistency but in the end it leads to a number of benefits. Exercising internal control is a responsibility and priority of the project manager. But apart from this, each participant in the project plays an important role for the functioning of the internal control.

The project manager is responsible for the following:

- to create the very internal control system;
- to introduce and implement the system;
- to keep track of its performance.

The responsibility of the project team is as follows:

- to get introduced to the system – each one must understand the procedures and rules for his/her work, as well as his/her role and responsibilities in the project;
- to observe the standards for work;
- to provide timely feedback, if he/she happens to notice any weaknesses in the system or during the progress of the project in general.

What are the requirements for the development of an internal control system?

During the development of an internal control system it should be taken into account that the very internal control has five interrelated components (defined and described in details in INTOSAI's Instruction for application of the internal control standards in the public sector):

- control environment – the basis of the internal control system; affects the strategy, objectives and structure of the control activities;
- risk assessment – the efficient risk assessment provides also the basis for development of a suitable strategy for responding to risks;
- control activities – the control activities are one of the main strategies for reducing the risk; they can be preventive and/or opening; the control activities should be economic, efficient and effective;
- information and communication – the efficient communication and information are extremely important for the performance of the control activities and achieving the project objectives;
- monitoring – monitoring of the internal control system is required due to the fact that the internal control is a dynamic process, which must be constantly adapted to the risks and changes in the project.

The development of an efficient internal control system should follow the stages below:

1. Identifying the scope of the control
2. Description of all planned project activities
3. Assessment of the available resources
4. Risk analysis and control
5. Testing the system

In general, it can be summarized that an internal control system is efficient when it meets the following requirements:

First: The control should be:

- operative and comprehensive;
- purposeful and focused on results;
- constant.

Second: In the internal control system, clear mechanisms should be developed for:

- analysis of the data, received during the progress of the work under the project;
- responding and undertaking corrective measures in case of any deviations from the preliminary plan;
- reporting and reflecting the actual progress and status of the project.

Third: The internal control system should be:

- user friendly;
- economic;
- efficient;
- creative;
- positive.

These directions represent a general framework for developing an internal control system. During their application, the project manager should develop similar policies, practices and procedures, depending on the objectives and specifics of the project that he/she manages.

The role of the project manager in the process of developing and implementing an internal control system

The main task of the project manager is to take decisions on how to use the available resources most efficiently in order to achieve the prescribed objectives. In a way, he/she has the same functions as the other managers – prepares plans and schedules, organizes resources, realizes the project plan, motivates the project team and controls the variables until the completion of the project. But there is also a significant difference between the project managers and the functional managers. Functional managers are appointed for managing specific tasks. For example, the human resources manager has the aim to plan and manage the human resources in a given organization; the financial manager is responsible for the movement of the money flows; the production manager focuses on the transformation of resources into ready production, etc. In contrast, the role of the project manager is unique. He/she is appointed to manage a temporary, unique, non-repeating in time activity. This to a great degree makes the management of the project more difficult and furthermore it strengthens the key importance of the efficient control in the progress of the project. In order to be able to successfully cope with this task – to measure regularly the actual results from the project activities, to compare them with the plan indexes and to undertake urgent corrective measures, if required, it is important that the project managers have good knowledge about the overall process during the progress of realization of the project.

This process includes two aspects. The first one is the technical part of the management process and it includes the activities related to the planning of the project, the distribution of resources, the work organization, the costs management, the risk control and management. The second aspect is the socio-cultural aspect. It includes the team motivation, the management of relations, the management of conflicts, the coping with crisis situations. Unlike the first one, this aspect

includes much more contradictory, unclear, paradoxical processes. The attention here is focused on the creation of internal, temporal social environment that unites the abilities of the different specialists, who work under the realization of the project objectives.

The project manager should feel the climate and culture of the project, stimulate the teamwork, generate new ideas, maintain high levels of personal motivation so well as well he/she copes with the timely identification and elimination of the problems that jeopardize the realization of the project. Unfortunately, many project managers pay much more attention to planning and controlling the technical aspects. It is a fact that this so-called visible part of the project management, based on logics and common sense, is comparatively more easily managed.

But on the other hand, focusing on and efficient managing of the other invisible and considerably more difficult part of the project management would bring to something extremely important, and that is increase of the internal self-control in the project team members, as well as independent functioning of the very project after a certain stage.

Some specialists in project management believe that exercising control over the technical aspect is “science” and exercising control over the socio-cultural aspects is “art”. Even so, there are activities, proven in the practice, which can be used by each project manager. Here are some of them:

The first important condition is creation of positive and stimulating work, creativity and initiative environment by the project manager by means of open and efficient communication, seeking and providing constructive feedback, stress and conflicts management, increase of motivation and confidence. The project manager should realize that he/she is a behavioral model and if he/she is convinced that internal control is important, then his/her team will feel this and will respond with conscious adherence to the prescribed control mechanisms. And vice versa, if the participants in the project feel that the control is not an important priority for their manager and that the control is mainly discussed instead of actually realized in practice, then it is almost certain that the internal control system will not achieve efficiently and fully its objectives.

The activities related to the development and improvement of the efficient communication in the team, the positive relations in the team, the ability for timely taking decision in extraordinary situation, the confidence and trust towards oneself and the others, the initiation, the proactivity and in general the team spirit should be integrated in each project. Good techniques thereof are organizing “kick-off” meetings for marking the official start of the project – introduction of the participants, presentation of the project objectives and activities, clarification of the roles and functions... Furthermore, a team building may be organized for the participants in the project for better introduction and forming a good team. The periodic meetings of the team for reporting the results, exchanging information about the progress of the project and identifying the work directions are not to be underestimated too. The organized celebrations of the different “victories” of the team also have a positive effect.

The project manager is responsible for the management of the motivation, which in general helps for the work of the team. The manager has one advantage, which consists of the fact that in most cases, the very work for a certain project brings satisfaction and pride with the achieved results. The work for a given project allows changing the environment, learning something new, avoiding the routine of the daily activities. Yet, there are many projects that are underestimated and participation in them is assessed as additional burden and interference in the main obligations. In some cases the greatest reward and satisfaction comes with the very completion of the project. Unfortunately, if in realizing such projects one relies on such an attitude (waiting for the end of the project) as a main stimulus, the quality of the project will surely suffer. These are the cases when the manager has the extremely important role to work purposefully for increasing the team motivation. In general, this can be achieved when the manager inspires three types of conviction in the members of his/her team during the whole project. First, the conviction that the work that they do is valuable and important. Second, the conviction that they are valuable as personalities and each one contributes for the realization of the project with his/her knowledge and skills. And last but not least, the conviction that they are valuable and important as a team.

Along with this, it is important that he/she encourages their perseverance and confidence that they know and can cope with the challenges before them. One of the ways to do this is in the use of the power of the feedback. It is important to say that the way the feedback is provided will determine its desired effect – whether it will be accepted and will result in the desired actions. Some of the rules for providing feedback are: the feedback should be constructive, not negative; based on facts, specific and exact; describing the behavior of the individual, not blaming; referring to behaviors that can be improved; timely and given personally in the eyes. Except providing feedback to his/her team, the project manager should encourage his/her people to demand feedback from the others, as well as to provide feedback to him/her.

Based on the desire and gathered experience during the realization of the project, the managers could to a great degree develop and improve new, not used until now personal or organizational resources. Therefore, during the process of realization of the project, it would be suitable that all new challenges related to the management be used and directed towards the creation of a positive team environment and boost of the motivation.

At the end, we can say that the internal control system is important considering its important role for reducing the project risk. On one hand, it helps for identifying the most important spheres, on which the risk assessment must be focused and on the other hand, it gives direction on how the responsibilities for its management are to be distributed. The introduction of such a system gives information, based on which apart from determining the risk in general, the risk's importance can also be determined, along with the possibility for it to arise. The internal control system helps for developing an actual profile of the risk for the managed project, which represents a good starting point for the manager of the project to think of a suitable response.

Therefore, the introduction of an internal control system for creating conditions for efficient achievement of the prescribed objectives is one of the most important tasks of the project manager.

REFERENCES

- [1] Directions of INTOSAI for application of the internal control standards in the public sector – <http://old.minfin.bg/docs/3intosay.pdf>
- [2] Andronov, Ev., M Alexandrova, Project Management. University Edition Economy, S., 2006
- [3] Clifford, Gr., Er. Larson, Translation into English, Project management. The managerial process, Issue Delo i Servis, M., 2003