MONITORING COSTS ON RESEARCH PROJECTS: OFTEN A CHALLENGE FOR SENIOR MANAGERS

by Raymond J. Struyk

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Introduction

Financial disasters in the form of major project cost overruns appear to happen to a significant share of think tanks, with some think tanks experiencing them with frequency. Common consequences include the inability to set aside funds for new initiatives (including adding key staff); senior managers and analysts scrambling to win new work to generate short-term financial stability; and poor morale often accompanied by sagging productivity as staff live under substantial uncertainty about their job security.

This article is focused on how well-managed think tanks avoid a steady drum-beat of project cost overruns. The reality is that it is not easy, and five key ingredients should be in place to do so. The following description is based on interviews about cost control practices at three think tanks I regard as well-managed: The Institute for Urban Economics (IUE) in Moscow, the Results for Development Institute (R4D) in Washington, DC, and the Urban Institute, also in Washington.[1] In the following pages these are sometimes referred to as "participating think tanks." The text also draws on my experiences, positive and other, with other think tanks.

The five ingredients important to avoiding project cost overruns are:

1. Full cost budgets are prepared for all projects, both those funded externally and those supported with an institute's private funds.
2. Tools are in place to track all costs.
3. Project managers receive timely reports on each project's expenses to date so that they can make adjustments in the work program, if needed, in a timely manner.
4. Mechanisms are in place for senior management to review spending and intervene when necessary.
5. Strong incentives are in place for project managers to deliver their projects within the agreed budget.

All three of the participating think tanks have all these ingredients in place. These, in turn, are discussed in the following pages.

1. I am grateful do Tatyana Polidi, Galina Golenkova, Courtney Tolmie, and Margery A. Turner for providing information on the practices of their institutes. The views expressed are mine.

Full cost budgets

A carefully-prepared budget for every research activity is essential. Such a budget reflects a knowledgeably prepared project execution plan and establishes targets for monitoring expenditures over a project's life.

A "full cost" budget as used here refers to one that includes both direct and indirect, or "overhead," charges. Direct costs are unambiguously attributable to a specific research project. For example, the cost of carrying out a survey to collect data for research on low-income households can clearly and easily be related to that particular research project.

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Indirect costs are not easily identifiable with a specific research project but are necessary to the operation of the research project or, more generally, to the organization carrying out the project. Costs are typically classified as indirect when either of two conditions is met (or both): (1) the costs benefit the entire organization and all projects carried out by the organization; or (2) the costs are attributable to specific projects, but the administrative cost of tracking and allocating these costs to individual projects outweighs the benefit of doing so.

An example of the first case is the cost of a personnel director who handles recruiting, develops and implements personnel policies, and ensures compliance with employment law. These necessary services benefit the organization as a whole. An example of the second case is the cost for local telephone service, which is difficult to attribute to individual projects, because either the costs are typically not tied to the number of calls, or the calls are not itemized in invoices from the telephone company. Thus, allocating local telephone charges would require maintaining logs to list the number and duration of calls and then distributing the costs across the logged calls. Since the cost of local telephone service is small (relative to total costs) and the cost (in staff time) of creating such logs is significant, allocating such costs as an indirect cost across all projects is a sensible solution.[2]

As the above comments suggest, think tanks have significant freedom in treating some specific costs as direct or indirect. That said, overhead costs are nearly always substantial and routinely are considered as large as labor costs. It is obviously essential to include such costs in calculating a research project's full cost.

2. A full description of indirect rates is in Chapter 11 of R. Struyk, Improving Think Tank Management (Washington, DC: Results for Development Institute).

Tools are available to track all costs

One can distinguish among three types of costs that a think tank must track to accurately measure project-level expenditures: (a) labor costs, which include both labor directly charged to projects and proportional staff charges for overhead functions that benefit all projects; (b) non-labor project specific charges, such as events; and, (c) non-labor overhead expenses, e.g., insurance or the costs associated with activities of the Board of Directors.

The only way to accurately track project-level labor charges is through a time-management or time-sheet system. It is standard practice for think tanks with such systems to include training on how time sheets are to be completed (accurately and every day). Casual evidence suggests that such systems are not widely employed by think tanks.

- At a 2011 Cairo workshop on think tank management organized by the Information and Decision Support Center of the Cabinet of the Government of Egypt, I asked the 71 participants from 40 organizations, mostly from Gulf countries, how many of their organizations had a time-sheet system in place for monitoring labor devoted to projects and managerial tasks. The answer was two!
- Among the 15 think tanks in a Global Development Network mentoring program in 2010, the answer was the same: Two!
- When I interviewed a prestigious Russian think tank about its management practices some years ago, I asked if it had a time sheet system. The response: 'No.' Knowing the organization received generous support from USAID, I asked how they met USAID's requirement that completed time sheets be able to support invoices submitted to justify invoiced amounts. The response: 'We create them if they are needed.'

This, of course, implies that most think tanks are unable to track project-level costs with much accuracy. Only if an organization has a few large projects being executed by separate teams will fairly accurate tracking be possible in the absence of a time management system.[3] These conditions are seldom met. All three participating think tanks have time management systems in place and actively work to ensure that staff time is correctly charged to projects, training or other activities.

On the other hand, tracking "other direct costs" (ODCs) of projects and non-staff labor expenses of overhead functions is fairly straightforward and need not detain us.

3. Some think tanks use an alternative approach to controlling costs. Research staff are paid a small monthly salary and their principal compensation is through firm fixed-price contracts executed for individual projects. The fixed contracts shift to the researcher the risk of more work being required than budgeted. There are three problems with this approach. First, it creates a powerful incentive for the researcher to complete her assignment in the shortest time possible, thereby maximizing her hourly wage rate and freeing her to work on other projects at the same time. The second and related problem is that the incentives push against thoughtful and creative research—for example, trying different statistical approaches or developing and testing alternative hypotheses. It is this type of explorative work that often results in most interesting findings. Third, it restricts the project manager's ability to shift resources among researchers during project execution: few researchers will be willing to give up some of the funds in their contract to help out a colleague. If they do it will be after considerable negotiation.

Project managers receive timely reports on each project's expenses in a timely manner

Standard practice in the think tank community is for project managers to receive cost reports on a bi-weekly or monthly basis. As indicated, these can have varying degrees of cost coverage. Table 1, at the end of the text, is the shell of the kind of comprehensive report managers at IUE receive monthly. This overview report summarizes labor costs, ODC expenditures, and overhead charges to the project. It is supplemented by Table 2, which provides information on the number of hours two staffers had charged in August 2013 to one project with several separate tasks, both total hours spent on the project to date and the hours charged that month. The reports are issued within a few days of the end of the most recent period for reported staff time charges.

These data fully inform the manager about project financial status generally, time used by each staff member and summary information on several classes of ODCs (additional data on these are available to the manager).

Mechanisms are in place for senior management to review and intervene when necessary

At one of the participating think tanks, the head of the accounting department and the three highest institute officials receive a summary of all project level costs reports. In assessing expenditures and time charges, standard metrics are employed for quick orientation of the situation: (a) the ratio of latest month's expenditures to the prorated average monthly spending over the life of the project, and (b) cumulative-to-date expenditures to pro-rated expenditures-to-date for the project.

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At this institute, inquiries are consistently made in cases of a significantly higher than expected spending rate. There are regular bi-weekly meetings that address a range of topics of the four research group heads, the chief accountant and the three most senior managers. The research team leaders report on all significant developments, including proposals under development, staff recruitment underway, and others. If an incipient spending issue is identified for a project, it will likely be identified by the research group's head. In any case, however it is identified, a separate meeting will be organized to discuss the situation. The chief accountant prepares background materials on the project for senior managers to refer to at a meeting intended to make adjustments to planned spending and avoid over-budget expenditures while still fully executing it.

Another of the participating think tanks uses a different oversight scheme. Project cost reports are distributed monthly (although real time expenditure data is accessible) and within a few days of their distribution project managers meet with their team leader/center director and two or three people from the finance office to review spending. Where issues are identified plans to address them are discussed, with the project manager developing a plan in a few days for group consideration.

The third participating institute uses a variant of the meeting-with-senior-managers approach. In this case the project manager and team leader/center director meet quarterly to discuss a range of topics with two of the institute's most senior officials, staff from the finance office, and others who attend as their area of responsibility is discussed, e.g., HR. Cost control performance is a prominent topic and where a problem is evident, explanations are energetically sought about the manager's plans to address them.

Strong incentives are in place for project managers to avoid cost overruns

I believe it is fair to say that the strongest incentive for project leaders to carefully manage costs is to avoid the anxiety of confronting their poor performance publicly at one of the routine meetings just described. All three of the participating think tanks have found the discomfort of public questioning, even in a collegial way, a distinctly unpleasant experience.

At many think tanks three items implicitly dominate the annual assessment of those managing research projects: their record in raising funds; the number of refereed publications during the year and policy communication activities; and, their performance in managing projects so that they are of strong quality, completed within budget and deliverables are submitted on time. It is true that at some think tanks these items are not explicitly listed, except for publications, but they are addressed within broader management categories.

There is no question that cost overruns receive attention in the deliberations of think tanks' Salary Review Committees and the staff assessment process more generally. But many factors are at play in deciding on salary increments and there are no rules-of-thumb on the effect of a cost overrun. Even if the annual salary is not affected by an overrun, the team leader is very aware from the assessment discussion that she has performed poorly in this area.

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Summing up

The process for controlling research project costs just outlined is substantial. When all the elements are present and used, it works well. Vigilance pays off: significant overruns are exceptional at the think tanks participating in this post.

When, however, information on some elements of projects' actual expenditures is weak or missing, such as labor costs in the absence of a time management system, one can expect overruns even when intentions to avoid them are strong. Of course, it is often very difficult even to identify an actual overrun when key cost information is absent.

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Table 1.
Template for Project Cost Status Report

Summary Project Status Report
Month: August 2013
(financial figures in dollars)

Project	**6718**	**Contract value fee**	**$5,000**
Project name	**Mortgage finance**	**Contract value cost**	**$700,000**
Client	**AHML**	**Contract value total**	**$705,000**
Contract number	**VN 7444**	**Funded value total**	**$250,000**
Project manager	**S. Sivaev**		

Account	**Expenditures**			
	Prior years actual	**Current month actual**	**Year to date actual**	**Contract to date actual**
Regular staff – on-site				
Regular staff – off-site				
Temporary staff				
Total labor cost				
Consultants				
Travel & related expenses				
Long distance tel/internet				
Reproduction				
Postage & delivery				
Subcontractors				
Other ODCs				
Unbillable/unallowed				
Total non-labor direct costs				
Fringe-regular staff				
Fringe-temp staff				
Overhead—onsite				
Overhead—offsite				
Total indirect costs				
Total expenses				

Table 2.
Control Table for Staff Time Charges: Project 10468, August 2013

Employee	*Project*	*Total hours spent*	*Hours spent last month*	*Hours in the budget*	*Balance*
Khakhalin, Andrei	10468-501-00	48	0	86	38
	10468-503-00	176	28	346	170
	10468-505-01	732	40	950	218
	10468-703-04	40	8	69	29
	10468-802-04	64	32	69	5
	10468-807-04	223	16	864	641
Total		**1,556**	**168**	**2,656**	**1,100**
Kutakova, Tatiana	10468-300-00	242	22	259	17
	10468-300-01	1304	96	1382	78
	10468-704-04	48	24	173	125
Total		**1,774**	**168**	**2,010**	**236**

Source: Institute for Urban Economics.