

Construction Contractors and Earned Value; Oxymoronic? Not Really!

For as long as I can remember, engineers and contractors have employed some form of parametric estimation to estimate job costs. As long as recorded project history exists in a usable form parametric estimating was a very accurate way to estimate. Because history includes the outcome of project risks, to a large degree, your estimates contain risk as well as all company-related factors.

Earned-Value techniques are a form of parametric analysis and create estimates of the future based on the past project history. Applying Earned-Value requires, as does parametric estimating, that the relevant data is in-place. This last factor is often the one and only deterrent to a contractor (or an Engineer) applying Earned-Value techniques.

The use of Earned-Value starts with a valid, budget-loaded schedule, best in CPM format. Most contractors due to the available cost accounting systems and practices that haven't change in over 100 years don't have the required basic information required. General contractors that do little or none of the trade work find it extremely difficult to collect the required information from their subcontractors, quickly and accurately.

What all of this means is contractors must switch from material/labor-based accounting methods to activity-based accounting. This is sort of like pulling those wisdom teeth! Those of you around long enough to witness the slow but sure transition from traditional management to modern project management will understand.

Until Earned-Value floats to the top we must accept that only some progressive contractors will begin to employ this very valuable and proven technique.

Hopefully the wakeup call echoed by many industry experts will reach the contractors in the United States. I recommend that you read the books on this subject authored by Joel Koppelman and Quinton Flemming.

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