

PERCEIVED VALUE OF BENEFITS FOR PROJECT MANAGERS COMPENSATION

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ABSTRACT

The article examines how the project manager role characteristics are perceived, valued and promoted by the key recruitment stakeholders - managers, entrepreneurs, recruiters or head-hunters - during their discussions in project initiation phase with the candidates for managing positions. In our research, we aim to understand the differences between the stakeholders perceptions involved in the project manager selection and ongoing compensation discussion. We used log-linear preference model based on paired comparisons and rankings. Also, we used mean comparisons of the scores of project managers roles attributes ranked by respondents from different industries (IT and construction) and with different organizational role (Management and Recruitment). Findings - The importance of the research is that it adds to the understanding of project managers' incentives and compensation. Also, it brings attention to the perceived value of the project roles attributes and the importance of the behavioral elements in project decisions.

KEYWORDS: *project management, executive compensation, project initiation analysis, perceived value*

JEL CLASSIFICATION: *J24, O22, M12*

1. INTRODUCTION

A project is a series of interrelated activities that aim to achieve very clearly defined objectives. A project is not an ongoing activity, but it has a clear start and finish date. All project activity is initiated and performed by people. Project managers lead the overall effort of the projects. They play key roles in determining the project outcomes and value. Sponsors and executive managers have confidence in the work and decisions of the project managers. Project team tends to look to the project manager as a person with knowledge, experience and capabilities to run the project successfully. In general, rising to the position of project manager may be viewed as a promotion, not only by the team members but also by the sponsor or executive managers.

Fleming and Schaupp (2012) find that investors and executive's perceptions differ on the elements that should be used in the determination of executive compensation: executives place greater emphasis on human capital factors than investors do, while investors place the greater emphasis on performance factors than executives do. They find differences in factors between executives and non-executive investors in a manner expected by agency theory (Fleming & Schaupp, 2012). Moreover, a study conducted by Kloppenborg et al. indicated significant differences between

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executive sponsors and project managers. They can be spotted regarding the perceived importance of executive sponsors involvement in the critical dimension of mentoring and assisting PMs with executives (Kloppenborg, Stubblebine, & Tesch, 2007).

The sponsors and the executive managers in the organizational context of the projects are the monitors for the project manager's performance. Findings from behavioral economics studies indicate that these monitors' judgment and decision making are subject to cognitive biases and pressures to conformity (Marnet, 2005). The results of the study developed by Vieito and Khan reveal that the gender gap in executive compensation is reducing essentially after the year 2000. They illustrate that the factors that explain the variation in executive compensation are not all the same for men and women (Vieito & Khan, 2012).

In our research we aim to understand how a project manager's role is perceived, valued and promoted by the key recruitment stakeholders (managers, entrepreneurs, recruiters or headhunters) during their discussions with the candidates for the position, which takes place in project initiation phase. After a literature review phase, we concluded that our research focus should be on a reduced number of project role benefits or characteristics that might be appealing for project manager candidates: reputation of the company, experience, learning and employability that might be gain during its lifetime, financial benefits including financial options shares, and innovative nature of the project.

Christiansen and Vendelo see *reputation* as the result (product) of previous interactions, producing trust in some form (Christiansen & Vendelo, 2003). Fombrun and Shanley (1990) mention that a good reputation will attract investors, decrease costs as suppliers offer better terms, encourage clients to purchase the firm's services and products, and assist in the hiring of skilled manpower. They define reputation as the overall attractiveness of an organization attributed to it by its multiple constituents on the basis of their experience with the organization, its performance, products etc. (Fombrun & Shanley, 1990).

Regarding the *financial options shares incentives* Nwogugu in a study from 2004, explains why employee stock options are superior to other forms of incentive compensation. He emphasizes that employee stock options in their current form are not an efficient method of compensating or motivating them. The use of employee stock options in their present form and the expensing of employee stock options costs by corporate will foster the incidence of fraud. This type of compensations/incentive should not be expensed at any time, for different economic, legal and behavioral reasons, but primarily because dilution fully accounts for the impact of employee stock options (Nwogugu, 2004).

Regarding the *management and learning experience*, for any project manager the work experience in the field should be most valuable. Project managers combine their educational background with real-world practice to oversee their teams and carry out projects. For example at a construction site, project managers are exposed to situations that can't be learned in the class. Murphy et al. study the benefits of failure mode and effect analysis as a risk assessment tool for construction *innovation* research. Their paper evidenced that not the project constraints require management to sustain innovation, but rather failures in stakeholder competency (Murphy, Heaney, & Perera, 2011).

In a quantitative study, Zabaleta et al. illustrates that adopting a project management approach and following a pioneering innovation strategy brings innovative results (Zabaleta, Igartua, Errasti, & Markuerkiaga, 2012).

2. RESEARCH METHOD

The empirical study is based on two research hypothesis:

H1: Key stakeholders involved in project initiation and managers' selection emphasizes the role attributes, influenced by the project industry category (IT vs. Construction)

H2: Key stakeholders involved in project initiation and project managers selection advocate the role attributes, influenced by his/her organizational role (Manager vs. Recruiter);

2.1. The target population and the sampling frame

The target population is formed by key parties involved in the project initiation, project manager’s selection and ongoing compensation discussion, entrepreneurs, managers and recruiters for IT and construction projects. Considering the sampling method, we used a non-probabilistic method that has the advantages of being less expensive and less time consuming. The questionnaire was distributed to a number of 500 persons, and the response rate was 19.4%. Out of 97 received responses, only 81 are valid, respondents having met the desired characteristics.

A percentage of 33% respondents are recruiters, and 66% are sponsors, entrepreneurs or executive managers involved in the project manager selection process. Data was analyzed by using *R* statistical software environment and *IBM SPSS V 19.0* statistical package.

Table 1. Respondents’ distribution by Role and Industry

		Role		
		Management Entrepreneurship	Recruitment	Total
		Count	Count	Count
Industry	Construction	54	27	81
	IT	54	27	81
	Total	108	54	162

Source: author’s processing

2.2. Design and administration of the questionnaire

The main questions in the questionnaire were:

When presenting a Project Management open position for an [1 - IT] / [2- Construction] project, what do you consider are the most valuable characteristics that matter for the potential candidate? (Rank the project aspects)

Each respondent stated the preference and ranked the project manager role attributes considered relevant in the industry scenario. The project role attributes selected to be assessed by the questionnaire, were chosen based on common elements discovered in a prior literature review exercise.

Table 2. Mean of the ranked scores of the main question

<i>...what do you consider are the most valuable characteristics...</i>	Mean	Standard Deviation
It implies good benefits package	4.20	2.16
It's owned by a big and well established company	3.56	2.18
It's a project that can make him more employable	3.75	2.09
Can have shares and financial options from business	5.74	2.01
It's a promising start-up/prestigious project	4.51	2.69
It's a fun and innovative project	5.19	2.41
It's a good management experience	4.05	1.80
It's a good learning experience	5.00	2.02

Source: authors’ statistical processing using IBM SPSS v 19.0

Using responses to both twin questions, we can run pairwise comparisons with log-linear preference models. Demographic data were also collected and used for data analysis and results interpretation. A brief table with the ranked attributes and the main results are presented in Table 2. Please note that the smaller the score (mean), the more relevant is the attribute for the key stakeholder involved in the project manager selection process.

2.2. Methodology

In the first step of the analysis we used mean comparisons and statistical tests (t-test) to assess the statistical significances of the differences between the two pair of groups Managers vs. Recruiters and respective, IT vs. Construction.

In the second step of the data analysis we used a well established technique for measuring the relative propensity of the key stakeholders involved in project manager selection to recommend certain attributes of the projects – log-linear preference models based on paired comparisons and rankings. The aim of the analysis is to establish an ordering of the generic projects manager job description attributes during discussions with a potential candidate. These characteristics are advocated by project principals (key stakeholders involved in project manager - agent - selection: sponsor, entrepreneur, recruiter) based on a subjective evaluation.

The model used is an extension of the basic paired comparison formulation by Bradley and Terry and computation is run using the **R** library *prefmod* that implements this model. The *prefmod* package provides a coherent suite of functions that cover a wide variety of models suitable for paired comparisons and rankings analysis (Hatzinger & Maier, 2014).

3. RESULTS

3.1 Means comparisons

Means comparisons by groups and *t-tests* were used to understand the variables and test for differences, respectively. From the results of the mean comparisons of the ranks in Table 3 we can see that a position in “prestigious construction” projects tends to be promoted in project role presentation, whereas for IT project managers roles selections the respondents advocate less the “promising startup” nature of the projects. Also, we can notice that the “innovative” nature of the project role is more endorsed for IT project roles than construction projects roles.

For both industries, the reputation of the company - “well-established company”, and the “employability” gained during the project are the most relevant attributes advocated by the key recruitment stakeholders.

Table 3. Means of the ranked scores by project industry

...what do you consider are the most valuable characteristics...		Industry		
		Construction	IT	Total
It implies good benefits package	Mean	4.16 _a	4.25 _a	4.20
	Standard Deviation	2.11 _a	2.22 _a	2.16
It's owned by a big and well established company	Mean	3.33 _a	3.78 _a	3.56
	Standard Deviation	2.10 _a	2.24 _a	2.18
It's a project that can make him more employable	Mean	3.93 _a	3.58 _a	3.75
	Standard Deviation	2.04 _a	2.14 _a	2.09
Can have shares and financial options from business	Mean	5.81 _a	5.67 _a	5.74
	Standard Deviation	2.03 _a	2.01 _a	2.01
It's a promising start-up	Mean	2.90 _a	6.11_b	4.51

...what do you consider are the most valuable characteristics...		Industry		
		Construction	IT	Total
(IT)/prestigious project (Construction)	Standard Deviation	2.02 _a	2.30 _b	2.69
	Mean	5.81_a	4.57 _b	5.19
It's a fun and innovative project	Standard Deviation	2.31 _a	2.36 _b	2.41
	Mean	4.53_a	3.57 _b	4.05
It's a good management experience	Standard Deviation	1.72 _a	1.76 _b	1.80
	Mean	5.52_a	4.48 _b	5.00
It's a good learning experience	Standard Deviation	2.02 _a	1.90 _b	2.02

Note: Values in the same row and subtable not sharing the same subscript are significantly different at $p < 0.05$ in the two-sided test of equality for column means. Cells with no subscript are not included in the test. Tests assume equal variances.¹

1. Tests are adjusted for all pairwise comparisons within a row of each innermost subtable using the **Bonferroni correction**.

Source: authors' statistical processing using IBM SPSS v 19.0

When it comes to the influence of the role in the organization of the stakeholders involved in project manager selection, we can see in the following (Table 4) that the characteristics promoted in negotiation differ from management and entrepreneurship roles to recruitment and selection roles. Thus, managers and entrepreneurs advocate the “well established” nature of the company, while recruiters advocate the attribute related to the “employability” that can be achieved in the project role.

Table 4. Mean of the ranked scores by stakeholder role

...what do you consider are the most valuable characteristics...		Role		
		Management Entrepreneurship	Recruitment	Total
It implies good benefits package	Mean	4.16 _a	4.30 _a	4.20
	Standard Deviation	2.11 _a	2.28 _a	2.16
It's owned by a big and well established company	Mean	3.81_a	3.06 _b	3.56
	Standard Deviation	2.25 _a	1.94 _b	2.18
It's a project that can make him more employable	Mean	3.51 _a	4.24_b	3.75
	Standard Deviation	2.01 _a	2.18 _b	2.09
Can have shares and financial options from business	Mean	5.69 _a	5.85 _a	5.74
	Standard Deviation	2.02 _a	2.01 _a	2.01
It's a promising/prestigious project	Mean	4.61 _a	4.30 _a	4.51
	Standard Deviation	2.70 _a	2.70 _a	2.69
It's a fun and innovative project	Mean	5.22 _a	5.13 _a	5.19
	Standard Deviation	2.45 _a	2.34 _a	2.41
It's a good management experience	Mean	4.10 _a	3.94 _a	4.05
	Standard Deviation	1.85 _a	1.71 _a	1.80
It's a good learning experience	Mean	4.91 _a	5.19 _a	5.00
	Standard Deviation	2.03 _a	2.01 _a	2.02

Note: Values in the same row and subtable not sharing the same subscript are significantly different at $p < 0.05$ in the two-sided test of equality for column means. Cells with no subscript are not included in the test. Tests assume equal variances.¹

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Source: authors' statistical processing using IBM SPSS v 19.0

3.2 Preference models

Preference decisions depend on characteristics of the stakeholders with decision-making power (R. Dittrich, 2002). The inclusion of subject covariates allows us to move away from the assumption that all subjects have the same preference-favored ordering. In the analysis, we are interested how the advocated role attributes vary according to characteristics of the subjects: organizational role (management/entrepreneurship vs. recruitment). Also, we are keen to understand how the role attributes are praised by the principal stakeholders in different industries (IT vs. Constructions)

The worth parameters calculated from the first model are displayed in Figure 1. They show that key stakeholders involved in project selection praise employee stock options and innovative character of the project manager role when advocating a position, while characteristics of the project company (e.g. well-established company) are less promoted.

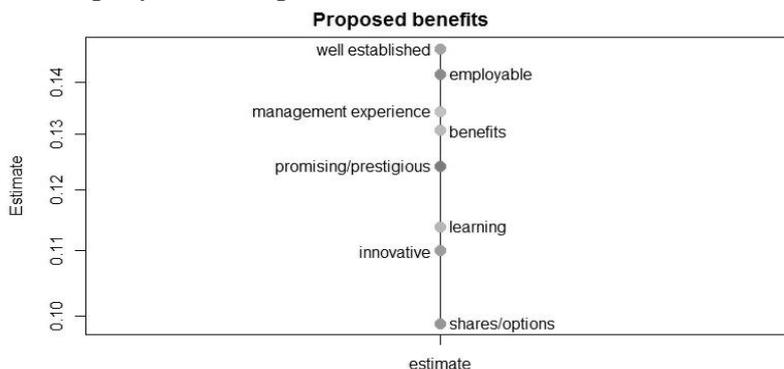


Figure 1. Worth plot for project manager role attributes

Source: authors' statistical processing using *prefmod* library from **R** programming language

The worth parameters calculated from the second model are displayed in Figure 2, showing that for IT project manager roles the principal stakeholders favor the prestige of the project/start-up whereas for construction they praise more innovative component.

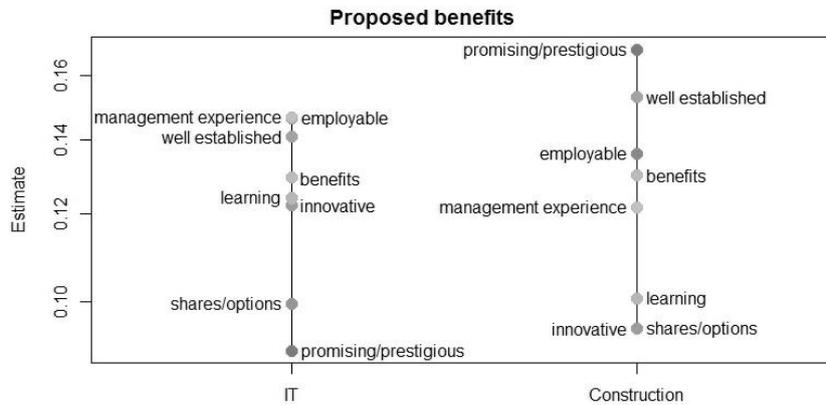


Figure 2. Worth plot for project manager role attributes by industry

Source: authors' statistical processing using *prefmod* library from **R** programming language

The worth parameters calculated from the third model are displayed in Figure 3, showing that principal stakeholders in management or entrepreneur role favor the prestige of the project/start-up whereas recruitment stakeholders involved in project manager selection praise employability that can be obtained.

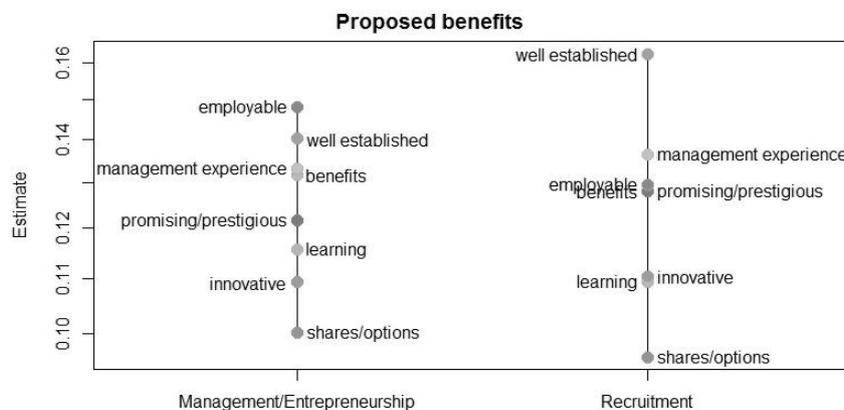


Figure 3. Worth plot for project manager role attributes by respondent role

Source: authors' statistical processing using *prefmod* library from **R** programming language

4. CONCLUSIONS

The research examines and emphasizes the differences between the two key parties involved in the project initiation, project manager selection and ongoing compensation discussion, entrepreneurs, managers and recruiters. We can conclude that there are relevant differences in how project manager roles attributes are perceived and valued by the key stakeholders - managers,

entrepreneurs, recruiters or head-hunters - during the initiation phase with the candidates for the position in discussion.

The importance of the research is that it adds to the understanding of project managers' compensation and the potential measure misalignment of goals that creates agency problems. Like all survey based researches, this study is not without limitations. The main one is related to the external validity of the model. Since the sample is small, it limits the inference of the results to a larger population. The practical implication is that it could potentially change project managers' compensation, through control of the factors involved in the process of measuring and rewarding of project managers.

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