

Benefits and Value

The only purpose of undertaking any business activity is to create value! If undertaking the work destroys value the activity should not be started.



Any value proposition though is ‘in the eye of the stakeholder’ – this is rarely constrained solely by time or cost. Effective value management requires an understanding of what is valuable to the organisation and the activities to create value should be focused on successfully delivering the anticipated value.

The chain of work starts with a project or similar activity initiated to create a new product, service or result. However, the new output by itself cannot deliver a benefit to the organisation and the project manager cannot be held responsible for the creation of value¹.

The organisation’s management has to make effective use of the output to realise a benefit. It is the organisations management that manages the organisation and these people need to change the way the organisation works to realise the intended benefit. The role of the project team in value creation is to ensure their output has all of the necessary characteristics and components to allow the organisation to easily adopt the ‘new output’ into its overall way of working (eg, effective training materials).

The outcome from making effective use of the output is expected to create a benefit – however to realise a benefit, the outcome needs to support a strategic objective of the organisation. If the outcome is in conflict with the organisations strategy, value can be destroyed. Strategic alignment is not an afterthought! The processes to initiate the project should have as a basic consideration its alignment with the organisations strategic objectives.

Assuming strategic alignment is achieved, the realised benefits should translate into real value. The challenge is often quantifying value – the concept of ‘value drivers’ helps². Value drivers allow the benefit to be quantified either financially or by other less tangible means.

Whilst connected, benefits, outcomes and value are distinctly different, and are often confused with each other. For example, in the current economic climate, organisations are finding operating capital in short supply. Therefore a new process to accelerate the billing cycle can be measured at several levels:

- The output from the activity to develop the new billing process is simply the new process – this has no value.
- Once the organisations management starts using the new process the measurable outcome is a reduction in the billing cycle from (say) 45 days to 32 days.
- The benefit of this reduction in the billing cycle could be a reduction in operating capital needs of \$500,000.
- If borrowings are deduced, the value of this reduction is \$500,000 at 12% interest = \$60,000 per annum.

The above example may also trigger additional value by allowing the capital to be redeployed into another profit generating activity such as improving customer relationships. What matters is ‘*what is actually done with the money that is freed up, since clearly if managers do not find ways to utilise the money released then*

¹ For more on the relationship between outputs, outcomes, objectives and goals see: WP1042 http://www.mosaicprojects.com.au/WhitePapers/WP1042_Outputs_Outcomes_Benefits.pdf

² For more ideas on value drivers, see the work by Jed Simms at: <http://www.valuedeliverymanagement.com>

no benefit will materialise. Only with the conscious intervention of managers will an outcome yield business benefits that create value³.

Once the whole organisation is aware of the value proposition, decisions to de-scope the initial work to meet time constraints and/or cost constraints can be made sensibly.

- A decision to de-scope the billing system project to achieve a 2 week saving in time that results in a 6 week longer implementation period (eg, by reducing training development) is clearly counterproductive.
- Similarly a decision to de-scope the project to avoid a \$5,000 cost overrun that changes the reduction in the billing cycle time from 13 days to 6 days will result in a halving of the capital saving and a cost increase to the organisation of \$30,000.

The challenge is identifying and communicating the value drivers to all levels of management involved in the activity so that valuable decisions are made in preference to knee jerk gut reactions focused on short term, easy to measure metrics.

Risk management is also an important aspect of value creation. Outcomes are not always as expected! There may be negative and/or unexpected outcomes leading to some disbenefits and loss of value. Responsible managers need to actively consider the full range of potential outcomes in terms of them being expected or unexpected, positive or negative. Then ensure the expected negative outcomes represent a price worth paying to obtain the positive benefits. Risks associated with identified negative outcomes should where practicable be mitigated by using effective risk management processes at all of the appropriate levels⁴.

In summary, value is created by meeting the strategic needs of the organisation's stakeholders - this requires careful analysis and understanding of who they are and what are their real requirements; ie, effective stakeholder management⁵ supported by a focus on the overall value proposition. At the end of the day, value is in the eye of the stakeholder! Your stakeholders either like what you have created and use it to realise value, or they don't like it, don't use it and no value is created.

³ Ward, J, Murray, P & David, E 2004, *Benefits Management Best Practice Guidelines*, Document Number : ISRC-BM-200401, School of Management, Cranfield University, Bedford, United Kingdom.

⁴ For more on risk management see: http://www.mosaicprojects.com.au/PMP_Sup/PMP_Mod11_Risk.html

⁵ For more on effective stakeholder management see: <http://www.stakeholder-management.com>