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. In this respect value can have many different meanings. Some projects generate significant intangible benefits such as reduced risk, enhanced prestige or in the case of regulatory requirements, the simple ability to keep trading; others are focused on generating a positive financial return, most generate a combination of financial and intangible returns.

Having understood the expected 'value' to be created, the chain of work starts with selecting and initiating a project or similar activity 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 value[1].

To create value the organisation must first back the right ideas, by choosing the right strategies and opportunities to invest in; this involves developing the 'right strategy' and then ensuring strategic alignment. Second be able to properly support the selected projects through to completion with resources and systems that enable success[2]. Then execute the project (or program) proficiently. Finally, the organisation's management then has to make effective use of the output to realise a benefit. Failure to achieve excellence at any of the four phases in the overall flow will reduce the value created.

It is the organisation's management that manages the organisation! These people need firstly select the 'right project' to do and then 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 a realised benefit – however to realise value, 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 or program should have as a basic consideration its alignment with the organisations strategic objectives. This alignment should be clearly spelled out in the Project (or Program) Charter[3].

Assuming strategic alignment is achieved, the realised benefits should translate into an increase in value[4] (provided the gross benefits exceed the gross expenses incurred in their realisation). The challenge is often quantifying value – the concept of 'value drivers' helps. Value drivers allow the benefit to be quantified either financially or by other less tangible means. These measures can be categorised on a continuum from Hard (Financial), to Quantifiable and Measurable, to Soft Benefits (Observable):

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

[2] For more on ***Project Delivery Capability*** see: https://www.mosaicprojects.com.au/WhitePapers/WP1079_PDC.pdf

[3] For more on ***Project Charters*** see: https://www.mosaicprojects.com.au/WhitePapers/WP1019_Charter.pdf

[4] Almost everything has ***a value*** (some: worth, utility, importance or usefulness), the increase in quantifiable value should measure the difference between the initial state and the improved state of the asset and take into account the costs and other expenses incurred in realising the benefit.

- **Hard Benefits**: the financial value can be calculated by applying a cost/price or other valid financial formula to a quantifiable benefit e.g. reduction in staff needed.
- **Quantifiable and Measurable Benefits**: are where there is sufficient evidence to forecast how much improvement/benefit should result from the change(s) e.g. reducing the average processing time by 10%. The value of the benefit may be tangible (hard) or intangible (soft).
- **Soft Benefits**: can only be observed through inferences derived from behaviours or by using experience or judgement to decide the extent the benefit will be realised and then assessing the amount actually achieved; These benefits are frequently the most important and should be measured to the greatest extent possible, whilst recognising the measurements are likely to be imprecise. Typically, soft benefits are either:
  - **Assessable**: directly surveyable (eg, staff morale assessed by survey), indirect measures (eg, reduced complaints) or indirect assessments (eg, asking line managers whether there has been an increase in staff motivation).
  - **Perceivable:** image, feelings, or emotions (eg, proud to work for…) determined through observations.

Soft benefits often relate to changes in individuals behaviour, which in many projects are critical to the realisation of the intended benefits. The challenge is how to find valid ways of measuring them[5].

A Benefit is a measurable gain or advantage. Value is contextual!

Whilst connected, outcomes, benefits and value are distinctly different; they 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 reduced, the potential **value** to the organisation of this reduction is $500,000 at 12% interest on borrowings = $60,000 per annum - but only if the organisation is running a bank overdraft. 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 no value will materialise. Only with the conscious intervention of managers will an outcome yield business benefits that create value[6]'*.

The value of something is not an intrinsic property; rather it is determined by its usefulness to those who want it; and as a consequence the perceived value of a future outcome can only be quantitatively assessed against the current business paradigm – qualitative assessments are needed to assess the possible future value against a potential but uncertain, future paradigm. This means any assessment of value is contextual, the above example may trigger additional value by allowing the capital to be redeployed into another profit generating activity such as improving customer relationships, or it may have very limited value if the organisation already has several $million sitting unused in its bank account. Consequently, from a value creation perspective, the concept of 'project success' needs to move from the simplistic measures described by the 'iron triangle' of time, cost and output (ie, 'project management success'), to a consideration of how

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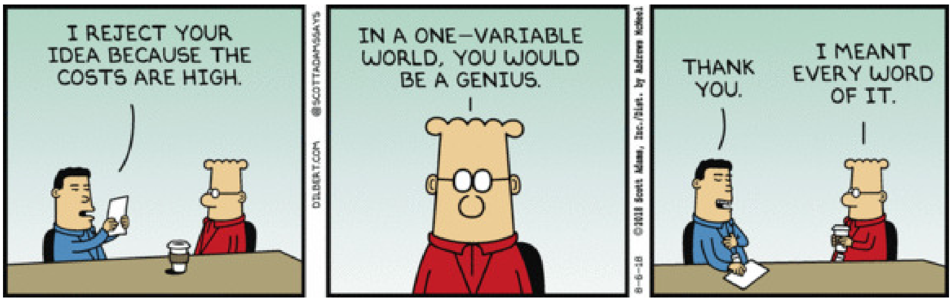
5 For more on ***assessing value*** see: https://www.mosaicprojects.com.au/Mag_Articles/SA1038_Who_Values_Value.pdf

6 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.

the project can enable the ‘client’ and other stakeholders to create value. The concept of the project as a value co-creation process links the project to its client and emphasises the need for the stakeholders to work together to create value. This incorporates the concept of organisational change and recognises that the concept of value can reach beyond simple tangible measures - project success has a broader scope than just achieving project management success.

The value proposition



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. But even this is not straightforward! Value is not universally distributed among stakeholders; what look likes value to one party may be worthless to another. Value exists only with the recognition of a benefit, or benefits by a stakeholder - the value proposition exists in the mind of the stakeholder and each stakeholder will see the value in a proposition differently.

Value is also contextual. If there is no exchange (or input), people tend not to value something. Conversely, if someone has spent effort, money and/or time, they are very likely to want to see a return from their input and this has value to them. Finding the ‘right’ value proposition requires understanding each of the key stakeholders ‘stake’ in the project and the organisation and then framing the benefits in terms of the stakeholder’s perspective on value.

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 levels[7].

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 change

[7] For more on ***risk management*** see: https://mosaicprojects.com.au/PMKI-PBK-045.php

management[8] supported by stakeholder management[9] and a focus on the overall value proposition. At the end of the day, value is in the eye of the stakeholder! Either your stakeholders 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.

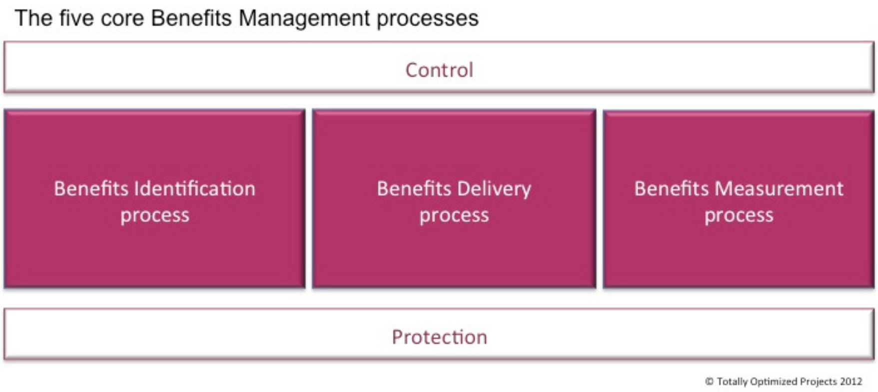
Benefits Management

The concept of 'benefits management' is becoming increasingly important in overall framework of project delivery capability[10]. The primary benefits intended to be created as a result of the project or program need to be identified and monitored in ways that are not unnecessarily bureaucratic.

The precursors to realising the benefit(s), and managing the process are:

1. A clear understanding of the intended benefits and importantly agreeing ways of prioritising between benefits if trade-offs are needed to optimise the overall outcome.
2. Inclusion of realistic and rigorous benefits assessment in the portfolio selection processes[11] to choose projects and programs to invest in.
3. An effective project delivery capability that will create the assets that underpin the potential for benefits to be realised (ie, the project deliverables).
4. An effective organisational change management capability[12] that manages all of the other factors necessary to make effective use of the assets created by the project/program; including training, operational support and facilitating the necessary cultural changes within the organisation.

The ***TOP Benefits Management Centre of Expertise***[13] has simplified this to five core sets of processes:



- **Control** - the role of the scope and portfolio management processes that control what value is made available within the project and across the portfolio.
- **Benefits Identification** - the effective identification, maximization and then optimization of the available value – to get the 'best bang for each buck'.
- **Benefits Delivery** - based on an active change management approach – leveraging off the project's outcomes to maximize the realization of the available value.

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8 For more on ***change management*** see: https://www.mosaicprojects.com.au/WhitePapers/WP1078_Change_Management.pdf

9 For more on effective ***stakeholder management*** see: https://mosaicprojects.com.au/PMKI-TPI-075.php

10 For more on ***PDC (project delivery capability)*** see: https://www.mosaicprojects.com.au/WhitePapers/WP1079_PDC.pdf

11 For more on ***portfolio management*** see: https://www.mosaicprojects.com.au/WhitePapers/WP1017_Portfolios.pdf

12 For more on ***organisational change management*** see: https://www.mosaicprojects.com.au/WhitePapers/WP1078_Change_Management.pdf

13 For more on ***TOP***, see: https://www.totallyoptimizedprojects.com/

- **Benefits Measurement** - the continuous monitoring and measurement of the steps towards the delivery of each benefit and then the actual benefit itself, with the ability to fully analyse any variances and their causes.
- **Value Protection** - through effective risk management and governance, equipping the sponsor and senior management team to focus on their primary role: the protection and delivery of the optimised business value from the project investment.

Protecting benefits is probably the most underrated aspect of 'benefits management'. Poorly designed projects can prevent benefits from being delivered in the future; they can be:

- Designed out of existence by the way the solution is developed
- Lost through neglect and lack of action to realise them
- Lost through the business staff's inability to deliver them
- Lost through the whole benefits focus being on measurement rather than delivery action.

Without action to deliver them, most benefits will be lost! Benefits realisation is a change management process[14], not just a measurement process. Benefits can and should be realised:

- During the project
- At the time of implementation (or implementations if staged), and
- After the end of the project.

But there has to be effective Benefits Delivery Plans with clear measures of success if they are to be realised. These Benefits Delivery Plans start with the project outputs and continue on to deliver the business outcomes, benefits and value[15]. These Plans need to be developed in conjunction with, and owned by the business to ensure that they are reasonable and within the capability of the business area to successfully execute.

There are a steadily increasing number of courses and qualifications focusing on the management of benefits, it is important that these are seen as general management skills, not as a sub-set of project or program management. The realisation of benefits to create value, the organisations 'value delivery capability' is a core competence for every successful organisation.

LogFRAME[16]

Logical Framework (LogFrame) is a methodology mainly used in the design, monitoring and evaluation of international development projects, particularly 'soft projects' such as business improvement, culture change and systems development where the results are not physically tangible.

The core of the Logical Framework takes the form of a series of connected propositions:

- If these Activities are implemented, and these Assumptions hold, then these Outputs will be delivered
- If these Outputs are delivered, and these Assumptions hold, then this Purpose will be achieved.
- If this Purpose is achieved, and these Assumptions hold, then this Goal will be achieved.

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14 For more on ***change management*** see: https://www.mosaicprojects.com.au/WhitePapers/WP1078_Change_Management.pdf

15 For more on ***outputs, outcomes, objectives and goals*** see: WP1042 https://www.mosaicprojects.com.au/WhitePapers/WP1042_Outputs_Outcomes_Benefits.pdf

16 For more on ***LogFRAME*** see: http://en.wikipedia.org/wiki/Logical_framework_approach

These are viewed as a hierarchy of hypotheses, with the project/program manager sharing responsibility with higher management for the validity of hypotheses beyond the output level. The methodology helps ensure alignment with the organisations key goals and helps set achievable and realistic key performance indicators.