MANAGEMENT SERVICES

A Structured Approach To Managing Business Benefits Realisation

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Laurence Archer is an accomplished management professional and a Senior Consultant with Oak Management Services. A businessman, change manager and technologist, Laurence understands the need to align change initiatives with corporate goals. His experience, insight and literary panache have produced a number of publications that successfully convey abstract ideas as achievable strategies.

Benefit Realisation Management (BRM) is core to the services provided by Oak Management Services and more information can be obtained from our website or direct from our offices.

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Introduction

When initiating a programme of business change or a project, we usually perform a cost benefit analysis in order to determine whether the project should be carried out.

However, once the project has been started, formal management focuses on scope, cost and schedule, not on the actual realisation of the business benefits. We somehow take it for granted that if the project meets its objectives then the benefits will automatically follow.

The net result is that at the end of the project or programme, we know whether it has been delivered within budget and on time, but we do not know, and cannot ensure, that the business benefits have been or will be realised.

This paper proposes that adopting a structured approach for identifying, mapping, planning and monitoring the realisation of business benefits, starting from before an investment decision is made, would make it possible to:

- Better understand the relationships between investments and benefits
- Prioritise investments based on their risk and contribution over time
- Identify all relevant investments, including catalysts (investments that appear not to provide direct benefits but without which other investments would not bear fruit)
- Identify initiatives required to remove obstacles to the realisation of benefits
- Group inter-dependent investments into programmes of business change
- Avoid duplicating investments
- React to changes in the business environment and ensure that investments do not become obsolete
- Maximise re-use of prior investments
- Provide a framework to ensure that the expected benefits are actually realised

What are business benefits?

Put simply, business benefits are the returns that a business expects to obtain as a result of an investment.

A change initiative, such as improving the business processes, tools, organisation and people that make up the business, is an investment. It incurs cost, uses resources, generates risk and takes time.

To look at a simple example, when evaluating an opportunity to invest in a financial instrument, one would normally take into consideration the projected yield over time and the intrinsic risk of the investment before making a decision. A low risk investment that quickly gives a high yield would be preferred to a higher risk investment that takes longer to mature and does not give a correspondingly higher yield.

The same principles apply when investing in a business. The main parameters in measuring the worth of an investment are financial (revenue, profit, shareholder value) and risk (business risk and threats to the organisation’s position or survival).

In addition, since a business has a role in society and is subject to regulations, there is the element of compliance to the business’ mission, to regulatory requirements, to safety and environmental standards.

In summary, an investment provides business benefit if it improves the company’s balance sheet, increases shareholder value, reduces business risk or achieves/improves/maintains compliance to the company’s mission, to regulatory requirements and to applicable safety and environmental standards.

A different point of view

Business benefits need to be looked at and managed from a different point of view when compared to the management of programmes or projects.

Programme Management and Project Management are very different from Benefits Realisation Management. In Programme and Project Management we focus on ensuring that we deliver what had been agreed on, in time and on budget. The focus of attention is more on the "what and how" than on the "why". We assume that if we satisfy the "what and how" the "why" will look after itself.

In Benefit Realisation Management the focus is on ensuring that the benefits are realised, we focus on "why" we make the investments in the first place, and only then on "how" we make it happen, even when things change.

The following practical example from everyday life can serve to illustrate the point.

A project could consist of planning a family day out. The intended benefit is to have a culturally enriching experience, and spending quality time with the family.

The cost is filling the tank with petrol, spending the day driving and convincing the rest of the family to get up early on the Sunday morning.

Let's assume that the initial plan is to visit a place of cultural interest that is outdoors.

Let us now assume that halfway there the weather turns and it starts raining.

By focusing on the benefits we are trying to realise, rather than on how we intend to realise them, we are able to change plan, redirect our attention to an indoor place of cultural interest, save ourselves some anguish and anxiety, and still realise the intended benefit.

By focusing on the "what" and the "how" of our project, we would probably insist on sticking to our plan, get everyone upset and forget why we wanted to have the day out in the first place.

One problem with looking at the costs and benefits of investments is that they occur at different levels of abstraction. Costs are incurred at the level of individual projects, components, resources etc., whereas benefits of the type described before are realised at a more aggregate level, as a result of multiple investment initiatives over time.

Moreover, costs and benefits occur at different points in time. Costs are likely to be incurred only during execution of a project, whereas benefits could be realised for some time after. This, however, is not always clear, and it is necessary to make the following distinctions:

- Intrinsic project risk vs residual business risk.

  The intrinsic risk of a project is a measure of the likelihood of the project succeeding.

  Business risk is the ongoing risk of doing business. Residual business risk is the risk that the business is exposed to as a result of the project. Reducing residual business risk is a tangible business benefit, increasing it is a cost.

- Intrinsic project cost vs residual business cost.

  The intrinsic cost of a project is a measure of the resources required in order to complete the project. Once the project has been completed there is no more cost incurred.

  Business cost is ongoing, residual business cost is the cost of doing business after the project has been completed. Decreasing business cost is a tangible business benefit, increasing it is a cost.

Linking investments to benefits

In order to understand the link between investments and benefits it is necessary to understand how they are linked through different layers of abstraction.

In order to clarify the relationships between different types of “benefits” and to make it easier to draw a roadmap from investments to tangible business benefits, we propose a way of modelling and linking benefits based on the following constructs:

- Enablers. These are specific project or programme deliverables such as a new payroll system, new processes, new organisation and skills, new sales channels, new products etc.

- Capabilities, or what is made possible by the enablers. They are defined as a new or changed capability compared to prior the investment. These could be items such as increased productivity, more flexible manufacturing capability, a more competitive product set, a more effective sales force.

- Strategic business outcomes. These are achieved by utilising the new or changed capabilities. For example increased sales, increased production, reduced unit cost of production, reduced cost of sales, increased retention of customers etc…

- Tangible business benefits. These are achieved by a combination of strategic business outcomes, and are expressed in terms of financial worth, risk and/or compliance. Examples are increased revenue, profitability or shareholder value, decreased risk of product or technological obsolescence, descreased risk of environmental damage, stronger alignment with company's mission and image, improved compliance with regulatory requirements, reduced risk of non-compliance, reduced cost of compliance.

Obstacles, risks, issues, conditions. At times the transformation from one level of benefit to the next is obstructed by a risk or issue, or is constrained by a condition that must be met. For example, increased production only generates increased revenue if sales are also increased. This can be initially identified as an issue, and subsequently transformed into an initiative.

A simple model would only have four levels of abstraction, each corresponding to one of the above. For example, a project could develop a new manufacturing system (enabler). This will enable the enterprise to increase manufacturing productivity (capability) and thus increase production and lower the unit cost of production (strategic business outcomes). Finally these will contribute to increased revenue and profitability (tangible business benefits).

A model such as the one described would enable management to distinguish the different levels of outcomes that can be achieved when making an investment, how these are related and what needs to be done to ensure they are completely transformed.

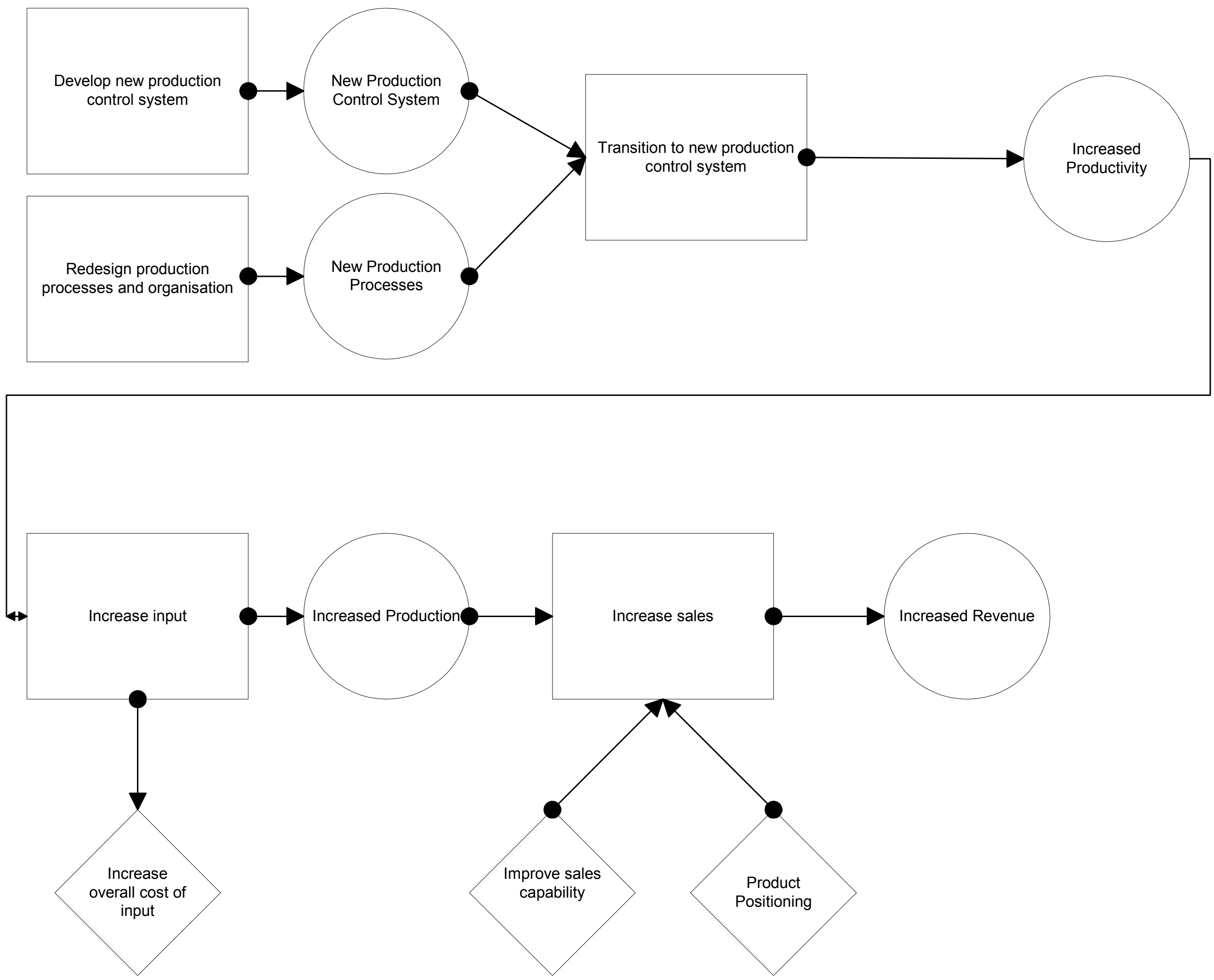
Whereas it is intuitive to understand that enablers are produced as a result of projects or change initiatives, it is not as intuitive to understand that enablers do not necessarily and automatically generate a capability. It is often also necessary to take action in order to cause this transformation. The same applies to the transformations from capability to strategic business outcome and hence to tangible business benefit.

For example, a new production system does not necessarily and automatically increase productivity. In order to generate this capability it is also necessary to change the way production is managed and controlled, re-skill and re-organise the staff and streamline the production processes.

Similarly, in order to transform increased productivity into increased production it is necessary to increase input (raw materials, power, work in progress). Although unit cost of production will fall, overall cost of production will probably increase.

Increased production is only transformed into increased revenue by increasing sales, and this might require improved sales processes, or a new advertising campaign and/or a redesign of the product portfolio. We can see a risk that if production is increased but sales do not, our overall profitability will actually decrease.

The following diagram represents part of the example discussed. Circles are used to represent outcomes, squares are used to represent initiatives. Diamonds represent risks, issues and conditions.



In the example above we have identified the following issues:

1. In order to increase production we have to increase input, and therefore we would have a higher overall cost of production, even though the unit cost has dropped. An initiative can be taken to reduce the overall cost of input, for example by negotiating discounts.

2. Increasing sales, which is needed in order to absorb increased production, depends on improving the sales capability and on having a competitive

product set. Perhaps initiatives are required in order to improve sales capability and to make the products more competitive.

We can therefore see that issues, risks, obstacles and conditions can be transformed into initiatives.

Creating the road-map

In order to formally and successfully manage business benefit realisation it is necessary to create a road map that identifies the initiatives that need to be taken, interdependencies and issues, similar to the example shown above.

The method for creating this road map or Benefits Model still depends on the intuition and experience of the facilitator. However the following can act as a useful guide.

- Distinguish clearly between enablers, capabilities, strategic business outcomes and tangible business benefits.

- Identify reduction of residual business cost and residual business risk as potential tangible business benefits.

- Ensure that tangible business benefits are always expressed in terms of financial worth, risk or compliance, or any combination of these. The concept of financial worth varies greatly between organisations depending on their nature, it may be expressed as profit, share price, adherence to budget etc.

- Ensure that capabilities are always expressed in terms of what will change, use terms such as “improve revenue”, “increase profit”, “new products”, “reduce costs”.

- Identify all obstacles, issues, risks and conditions. These serve to identify any additional initiatives that may be required in order to reduce the intrinsic risk of the investments.

- Use an iterative approach for developing a Benefits Model; don’t try to get it all right at once. Focus on different areas of the business at each iteration.

Implementing the road map.

Once a Benefits Model has been developed, it can form the basis for the following:

- Identify any risks that are not addressed and generate initiatives that address them. Ultimately the road map should have an initiative to address each condition, risk, issue and obstacle.

- Look for duplicate outcomes, do you have two different projects trying to achieve the same thing?

- Group initiatives based on the capabilities that they contribute to.

- For each and every outcome, at whatever level of abstraction, identify a specific measurable objective. It is more effective to do this top to bottom rather than bottom-up. For example, set a specific measurable objective for increased revenue, and then see how the various capabilities could contribute to it.

- For each specific measurable objective, identify, assign and communicate accountabilities for their achievement.

- Identify and implement methods and metrics for monitoring the specific measurable objectives over time.

- Create and publish a Benefits Register as a method of controlling benefits realisation over time.