

VALUE MANAGEMENT AND BENEFITS REALIZATION¹

By

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Introduction

Organizations in both the public and private sectors have been struggling with the creation of a portfolio of projects that would provide sustainable business value. All too often, companies would add all project requests to the queue for delivery without proper evaluation and with little regard if the project were aligned with business objectives or provided benefits and value upon successful completion. Projects were often submitted without any accompanying business cases. Many projects had accompanying business cases that were based upon highly exaggerated expectations and unrealistic benefits. Other projects were created because of the whims of management and the order in which the projects were completed was based upon the rank or title of the requestor. Simply because an executive says "Get It Done" does not mean it will happen. The result was often project failure and a waste of precious resources. In some highly visible and well-publicized cases, business value was eroded or destroyed rather than created.

Understanding The Terminology

Before continuing on, it is important to understand the terminology.

A **benefit** is something that is considered to be important or advantageous to specific individuals or a group of individuals. Benefits, whether they are strategic or nonstrategic, are normally aligned to the organizational objectives of the sponsoring organization that will eventually receive the benefits. The benefits appear through the deliverables or outputs that are created by the project. It is the responsibility of the project manager to create the deliverables.

Benefits are identified in the project's business case. Some benefits are tangible and can be quantified. But it is more likely that the benefits are intangible at this stage in the project and difficult to quantify.

Benefits realization management is a collection of processes, principles and deliverables to effectively manage the organization's investments. Project management focuses on maintaining the established baselines whereas benefits realization management analyzes the relationship that the project has to the business objectives by monitoring for potential waste, acceptable levels of resources, risk, cost, quality and

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time as it relates to the benefits. It is entirely possible that the benefits can change over the life of the project to a point where the outcome of the project provides detrimental results.²

Project **value** is what the benefits are worth to someone. Project or business value can be quantified whereas benefits are usually explained qualitatively. On some projects, the value of the benefits of the project cannot be quantified until several months after the project has been completed. As an example, a government agency enlarges a road to hopefully reduce traffic congestion. The value of the project may not be known until several months after the construction project has been completed and traffic flow measurements have been made.

Benefits realization and business value do not come from simply having talented resources or superior capabilities. Rather, they come from how the organization uses the resources. Sometimes, even projects with well thought out plans and superior talent do not end up creating business value and can even destroy existing value.

Life Cycle Phases

Typical project life cycle phases begin once the project is approved and end after the deliverables have been created. However, when value management and benefits realization become important, there are additional life cycle phases that must be included as shown in Exhibit 1. Exhibit 1 is more representative of an investment life cycle than a project life cycle. If value is to be created, then the benefits must be managed over the complete investment life cycle. The project life cycle falls within the investment life cycle. More than six life cycle phases could have been identified in the investment life cycle, but only these six will be considered here for simplicity.

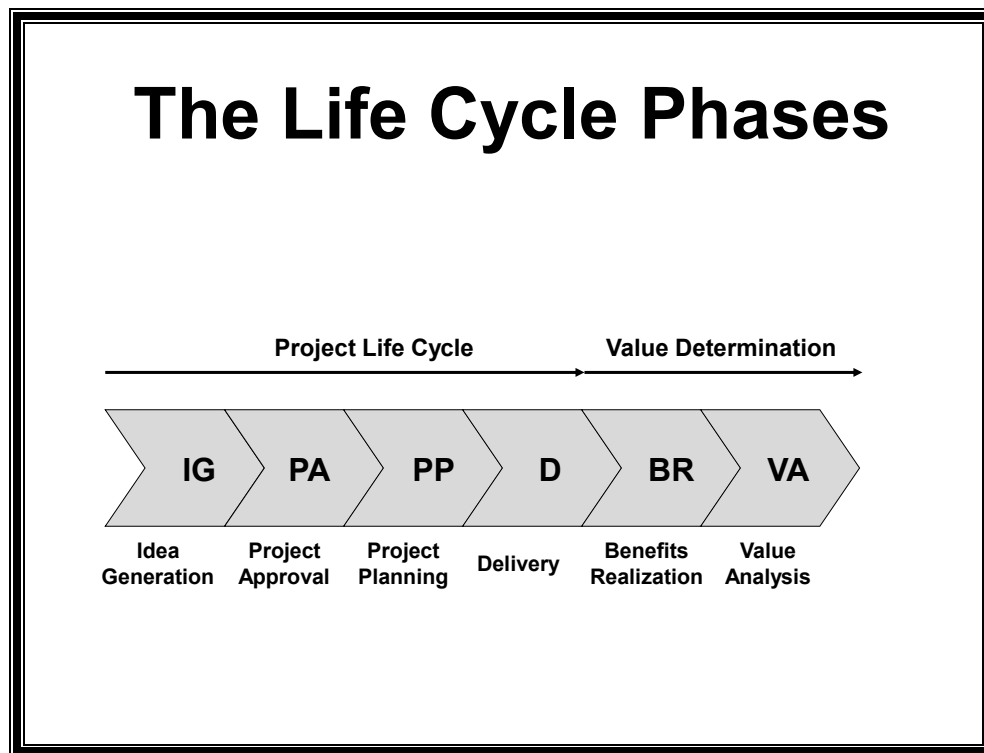
The **Idea Generation Phase** is where the idea for the project originates. The idea can originate in the client's organization, within the senior level or lower levels of management in the parent company or the client, or within the organization funding the project. The output of the Idea Generation Phase is usually the creation of a business case that may include:

- Opportunities such as improved efficiency, effectiveness, waste reduction, cost savings, new business, etc...
- Benefits defined in both business and financial terms
- A benefit realization plan if necessary
- Project costs

² For additional information on benefits realization, see Craig Letavec, **Strategic Benefits Realization**, J. Ross Publishers, 2004, and Trish Melton, Peter Iles-Smith and Jim Yates, **Project Benefits Management; Linking Projects to the Business**, Butterworth-Heinemann Publishers, an imprint of Elsevier Publishers, 2008

- Recommended metrics for tracking the benefits
- Risks
- Resource requirements
- Schedules and milestones
- Complexity
- Assumptions and constraints
- Technology requirements; new or existing technology
- Exit strategies if the project must be terminated

Exhibit 1 Typical Investment Life Cycle Phases



Although the idea originator may have a clear picture of the ultimate value of the project, the business case is defined in terms of expected benefits rather than value. Value is determined near the end of the project based upon the benefits that are actually achieved and quantified. The benefits actually achieved may be significantly different from the expected benefits defined at project initiation.

Not all projects require the creation of a business case. Examples might include projects that are mandatory for regulatory agency compliance or simply to allow the business to continue.

Once the business case is prepared, a request is sent to the Project Management Office (PMO) for project approval. Companies today are establishing a portfolio management PMO to control the **Project Approval Phase** and to monitor the performance of the portfolio of projects during delivery.

The PMO must make decisions for what is in the best interest of the entire company. A project that is considered as extremely important to one business unit may be a low priority when compared to all of the other corporate projects in the queue. The PMO must maximize the benefits through proper balancing of critical resources and proper prioritization of projects.

The PMO must address three critical questions as shown in Exhibit 2.

Exhibit 2 Typical Role for a Portfolio PMO

Critical Questions	Areas of Consideration	Portfolio Tools and Processes
Are we doing the right things?	<ul style="list-style-type: none"> • Alignment to the strategic goals such as shareholder value or customer satisfaction • Evaluation of internal strengths and weaknesses • Evaluation of available and qualified resources 	<ul style="list-style-type: none"> • Templates to evaluate rigor of the business case • Strategic fit analysis and linkage to strategic objectives • Matrix showing the relationships between projects • Resources skills matrices • Capacity planning templates • Prioritization templates
Are we doing enough of the right things?	<ul style="list-style-type: none"> • Comparison to strategic goals and objectives • Ability to meet all of the customers' expectations 	<ul style="list-style-type: none"> • Overall benefits tracking • Accurate reporting using the project management information system
Are we doing the right things right?	<ul style="list-style-type: none"> • Ability to meet expectations • Ability to achieve benefits • Ability to manage technology 	<ul style="list-style-type: none"> • Benefit realization plans • Formalized detailed project plans • Establishing tracking metrics and KPIs • Risk analysis • Issues management • Resource tracking • Benefits tracking

The activities identified with the 3rd question in Exhibit 2 are usually part of the PMO's responsibility for monitoring performance once the project is approved.

The third life cycle phase is the **Project Planning Phase**. This phase includes preliminary planning, detailed planning, and benefits realization planning. Although the business case may include assumptions and constraints, there may be additional assumptions and constraints provided by the PMO related to overall business objectives and the impact that enterprise environment factors may have on the project. The benefits realization plan that may have been created as part of the business case may undergo significant changes in this phase.

The benefits realization plan is not the same as the project plan but must be integrated with the project plan. The benefits realization plan may undergo continuous change as the project progresses based upon changing business conditions. Items that may be unique to the benefits realization plan include:

- A description of the benefits
- Identification of each benefit as tangible or intangible
- Identification of the recipient of each benefit
- How the benefits will be realized
- How the benefits will be measured
- The realization date for each benefit
- The handover activities to another group that may be responsible for converting the project's deliverables into benefits realization

The fourth life cycle phase is the **Delivery Phase**. This phase is most commonly based upon the **PMBOK® Guide** standards or any other project management standards. Traditional project management methodologies are used. In this phase, the project manager works closely with the PMO and the steering/governance committee to maximize the realization of the benefits.

Performance reporting must be made available to the portfolio PMO as well as to the appropriate stakeholders. If the alignment of the project with business objectives has changed during delivery, the PMO may recommend that the project be redirected or even cancelled such that the resources will then be assigned to other projects that can provide a maximization of benefits.

There are numerous factors which may lead to project cancellation. Some of these include:

- During project delivery, neglecting to recognize changes in the enterprise environmental factors and how they influence the benefits expected as well as senior management's vision of the future

- Unfavorable changes in the assumptions and constraints
- Exaggerated or unrealistic benefits and value established during project approval
- Poorly defined or ill-defined benefits
- Poorly documented business case resulting in the approval of the wrong project
- Failing to get executive and stakeholder buy-in right from the start
- Poor executive governance resulting in lack of support and poor decision making
- Constantly changing the membership of the governance team resulting in a constant change of project direction
- Over-estimating resource competencies needed for project delivery
- Poor capacity planning efforts resulting in an understaffed project or a project staffed with resources lacking the necessary skills
- Functional managers refusing to commit the proper resources for the duration of the project
- Failing to get employee commitment to the project and the expected benefits
- Failing to explain the project well to the project delivery team
- Failing to understand the magnitude of the organizational change needed for the benefits and value to be achieved
- Unable to manage change effectively
- Failing to consider the impact of changes in technology during the delivery of the project
- Poor estimating of time and cost
- Having an execution team that is unable to work with ill-defined or constantly changing requirement
- Poor integration of the project across the entire organization
- Inadequate communications throughout the organization

The last two life cycle phases in Exhibit 1 are the **Benefits Realization Phase** and the **Value Analysis Phase**. The benefits realization plan, regardless in which life cycle phase it is prepared, must identify the metrics that will be used to track the benefits and accompanying value. Benefits and value metrics are the weak links in benefits realization planning. Much has been written on the components of the plan but very little appears on the metrics to be used.³

Exhibit 3 identifies four broad categories that can be used for the identification of benefits. There are numerous benefits and metrics that can be used for each category. Only a few appear here as examples.

³ For information on creating and reporting value metrics, see Harold Kerzner, **Project Management Metrics, KPIs and Dashboards**, 2nd edition, John Wiley and IIL Co-publishers, 2013; Chapter 5.

Metrics serves as early warning signs of possible problems. Some examples might be:

- Metrics on the number of scope changes identify the possibility of a schedule slippage and cost overrun
- Metrics on the number of people removed to put out fires elsewhere also indicate the possibility of a schedule slippage and cost overrun
- Metrics on excessive overtime could indicate serious issues
- Metrics on missed deadlines indicate that the time-to-market may slip and opportunities may be lost

Exhibit 3 Typical Categories of Benefits and Value

Category	Benefits	Project Tracking Metrics
Internal benefits	<ul style="list-style-type: none"> • Adherence to constraints • Repetitive delivery • Control of scope changes • Control of action items • Reduction in waste • Efficiency 	<ul style="list-style-type: none"> • Time • Cost • Scope • Quality • Number of scope changes • Duration of open action items • Number of resources • Amount of waste • Efficiency
Financial benefits	<ul style="list-style-type: none"> • Improvements in ROI, NPV, IRR and payback period • Cash flow • Improvements in operating margins 	<ul style="list-style-type: none"> • Financial metrics • ROI calculators • Operating margin
Future benefits	<ul style="list-style-type: none"> • Reducing time-to-market • Image/reputation • Technical superiority • Creation of new technology or products 	<ul style="list-style-type: none"> • Time • Surveys on image and reputation • Number of new products • Number of patents • Number of retained customers • Number of new customers
Customer-related benefits	<ul style="list-style-type: none"> • Customer loyalty • Number of customers allowing you to use their name as a reference • Improvements in customer delivery • Customer satisfaction ratings 	<ul style="list-style-type: none"> • Loyalty/customer satisfaction surveys • Time-to-market • Quality

The project tracking metrics identified in Exhibit 3 are design to track individual projects in each of the categories. However, there are specific metrics that can be used to measure the effectiveness of a PMO. Exhibit 4 shows the metrics that can be used to measure the overall value of project management, a traditional PMO and a portfolio PMO. The metrics listed under project management and many of the metrics under the traditional PMO are considered as micro metrics focusing on tactical objectives. The metrics listed under the portfolio PMO are macro level metrics. Both the traditional and portfolio PMOs are generally considered as overhead and subject to possible downsizing unless the PMOs can show through metrics how the organization benefits by their existence.

Exhibit 4 Metrics for Specific PMO Types

Project Management	Traditional PMO	Portfolio PMO
<ul style="list-style-type: none"> • Adherence to schedule baselines • Adherence to cost baselines • Adherence to scope baselines • Adherence to quality requirements • Effective utilization of resources • Customer satisfaction levels • Project performance • Total number of deliverables produced 	<ul style="list-style-type: none"> • Growth in customer satisfaction • Number of projects at risk • Conformance to the methodology • Ways to reduce the number of scope changes • Growth in the yearly throughput of work • Validation of timing and funding • Ability to reduce project closure rates 	<ul style="list-style-type: none"> • Business portfolio profitability or ROI • Portfolio health • Percentage of successful portfolio projects • Portfolio benefits realization • Portfolio value achieved • Portfolio selection and mix of projects • Resource availability • Capacity available for the portfolio • Utilization of people for portfolio projects • Hours per portfolio project • Staff shortage • Strategic alignment • Business performance enhancements • Portfolio budget versus actual • Portfolio deadline versus actual

It is important to understand that some of the micro metrics we use for tracking benefits may have a different meaning for the customer. As an example, let us assume that you

are managing a project for an external client. The deliverable is a component that your customer will use in a product he/she is selling to their customers (i.e. your customer's customers or consumers). Exhibit 5 shows how each of the metrics may be interpreted. It is important to realize that benefits and value are like beauty; they are in the eyes of the beholder. Customers and contractors can have a different perception of the meaning of benefits and value.

Exhibit 5 Interpretation of the Metrics

Benefit Metric	Project Manager's Interpretation	Customer's Interpretation	Consumer's Interpretation
Time	Project duration	Time-to-market	Delivery date
Cost	Project cost	Selling price	Purchasing price
Quality	Performance	Functionality	Usability
Technology and scope	Meeting specifications	Strategic alignment	Safe buy and reliable
Satisfaction	Customer satisfaction	Consumer satisfaction	Esteem in ownership
Risks	No future business from this client	Loss of profits and market share	Need for support and risk of obsolescence

Understanding Value

Value is what the benefits are worth either at the end of the Delivery Phase or sometime in the future. Even though the benefits may be on track for achievement, the value can change. Consider the following examples:

- A company approves the development of a customized software package with the expected benefit of reducing order entry processing by 50%, which would be a savings of approximately \$1 million annually. The cost of developing the package is estimated at \$3 million. As the project delivery process begins, the company realizes that the cost of developing the software will be closer to \$5 million rather than \$3 million. Even though the benefit of a cost savings still exists, the value has diminished and the payback period is now five years rather than three years. The company might now consider cancelling the project and assigning resources elsewhere. Lesson learned: even though the benefits may not have changed, there can be an unfavorable change in the expected value.
- A company has a contract to manufacture a component for a customer. The benefit is an expected \$100,000 in profit on this contract. The resources could be assigned to a second project where the expected profit is greater. However, the

customer for the first project is expecting to make \$100 million in profits from the sale of their products that include your component. If the customer is happy with your component, you could very well receive a significant number of follow-on contracts such that the long term value of the first project significantly supports long term strategic objectives. Lesson learned: even though the benefits have not changed, there can be a significant favorable change in the expected value.

- A company is working on an internal project with a well-defined benefits realization plan. During the delivery of the project, the costs are escalating and the schedule has been extended in order to provide added value to the internal customer. The customer authorized the cost overrun and schedule slippage. The benefits realization plan is updated. Lesson learned: benefits and value can change as the delivery of the project takes place.

Transformation from Benefits to Value

Some projects require change agents to convert the benefits to final value. As an example, a company completes a software project designed to roll out a new company-wide e-mail system. Usually, business management is responsible to implement the strategy in order to obtain the maximum value. However, there is a growing trend for the project manager responsible for delivery to function as the change agent. Acting as a change agent may require that project managers possess a different set of skills than those possessed by traditional project managers. This is shown in Exhibit 6.⁴

Exhibit 6 Skills for Managing Transformational Projects

Traits	Differences
Authority	From leadership without authority to significant authority
Power	From legitimate power to judicious use of power
Decision making	From some decision making to having authority for significant decision making
Types of decisions	From project only decisions to project and business decisions
Willingness to delegate	The length and size of the project will force the project managers to delegate more authority and

⁴ Adapted from Harold Kerzner, *Project Management Best Practices: Achieving Global Excellence*; 3rd edition, John Wiley and IIL Co-publishers, 2014; P.117

	decision making than they normal would
Loyalty	From project loyalty to corporate vision and business loyalty
Social skills	Strong social skills are needed, since we could be working with the same people for years
Motivation	Learning how to motivate workers without using financial rewards and power
Communication skills	Communication across the entire organization rather than with a selected few
Status reporting	Recognizing that the status of strategic projects cannot be made from time and cost alone
Perspective/outlook	Having a much wider outlook, especially from a business perspective
Vision	Must have the same long-term vision as the executives and promote the vision throughout the company
Compassion	Must have a much stronger compassion for the workers, since they may be assigned for years
Self-control	Must not over-react to bad news or disturbances
Brainstorming and problem solving	Must have very strong brainstorming and problem-solving skills
Change management	Going from project to corporate-wide change management
Change management impact	Going from project to organizational change management effects

Conclusions

Because of the importance of benefits and value, today's project managers are more of business managers than the pure project managers of the past. Today's project managers are expected to make business decisions as well as project-based decisions. Project managers seem to know more about the business than their predecessors.

With the growth in measurement techniques, companies will begin creating metrics to measure benefits and value. While many of these measurement techniques are still in the infancy stages, the growth rate is expected to be rapid.



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