

Building enterprise project management capability 11

Benefits Management

by Professor J. Rodney Turner

Over the past few months I have discussed project governance, and in the process have introduced the role of the project sponsor. The project sponsor has several responsibilities:

- to act as an ambassador for the project
- to obtain the necessary funding and support
- to ensure the benefits are achieved

In this issue I discuss one very important role of the sponsor, the delivery of business benefit. In a simple model of project management I developed some years ago (Turner, 1999), I said there were three essential levels of a project and the objectives to be delivered:

1. The project itself is work to be done. At this level we spend money to deliver intermediate project outputs and achieve the objectives of time and cost.
2. That work is done to deliver some facility or asset. At this level we produce the final project deliverable with the required functionality, and integrate it with the ongoing business.
3. That asset is operated by the parent organization to deliver business benefit. At this level we operate the asset to solve the problem, or exploit the opportunity we set out to solve, or exploit, and deliver the benefit used to justify the money spent on the project. In doing so we link the project's outputs to corporate strategy, Figure 1.

The work is undertaken by the project team. It is the responsibility of the project manager to manage its completion to time, cost and quality. It is the role of the project sponsor to define the business benefit and ensure it is achieved once the project has been completed. Unfortunately this often does not happen and organizations fail to achieve the full benefit from their projects. Terry Cooke-Davies has shown that having a benefits management process is a critical success factor on projects. Organizations that positively manage benefits delivery achieve better results on projects. The UK Government has made benefits delivery part of its project management and programme management processes (OGC 2002, 2003).

A process of benefits management

The UK Government in their process for programme management, *Managing Successful Programmes* (OGC, 2003), suggests that benefits management should run in parallel to programme management (Figure 2). On a programme, benefits management takes place throughout the programme. One of the advantages of programme management is that benefits can be realized throughout the programme, giving early returns.

In a project, it is slightly different. Figure 3 illustrates the project life-cycle, showing when some of the key products and objectives are delivered. Benefits delivery takes place at the end, after the asset is commissioned. Benefits management, of course, should start early on, as early as the preparation of the project brief and even project mandate.

In the programme management process, managing the project portfolio to deliver the programme's outputs is the responsibility of the programme manager. I suggest it is the same on a project. Managing the project process to deliver the commissioned asset is the responsibility of the project manager. Using the operating asset to achieve business benefit is the responsibility of the project sponsor.

Figure 4 shows a process for benefits management, adapted from *Managing Successful Programmes*. (OGC, 2003), There are three major steps:

1. Benefits strategy
2. Benefits planning
3. Benefits realization

Benefits strategy consists of two subsidiary steps:

- define the desired outcomes
- develop the benefits management strategy

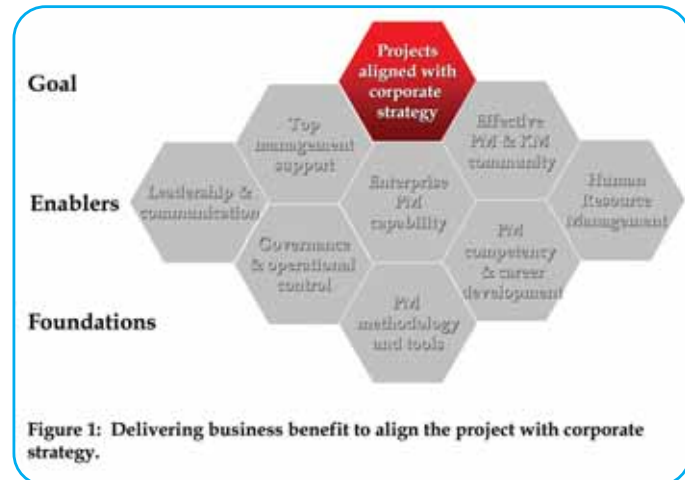


Figure 1: Delivering business benefit to align the project with corporate strategy.

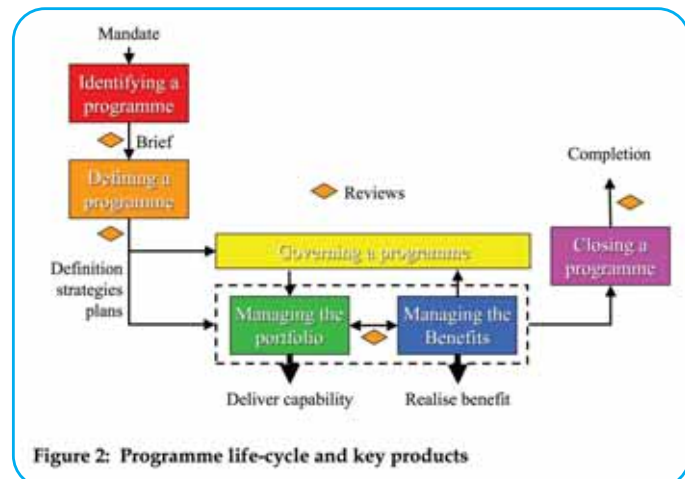


Figure 2: Programme life-cycle and key products

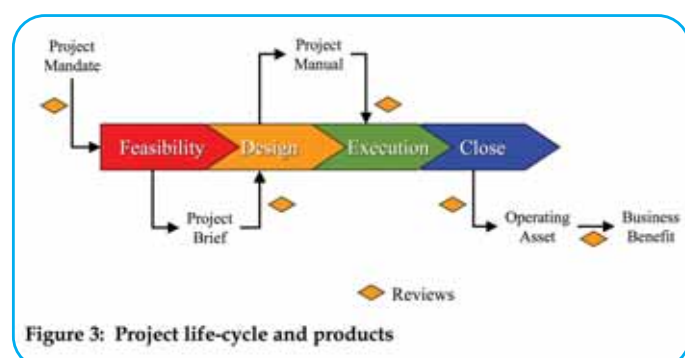


Figure 3: Project life-cycle and products

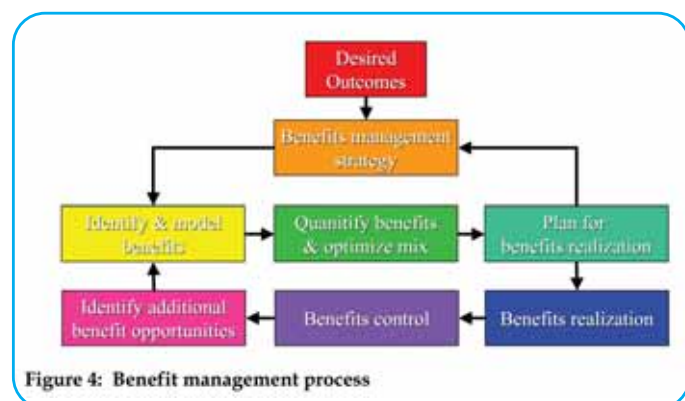


Figure 4: Benefit management process

Benefits planning consists of three steps:

- identify and model the benefits
- quantify the benefits optimise the mix
- plan for benefits realization

Benefits realization is a control process, where you check that the project has actually delivered the desired benefits, and take action to reduce any shortfall. You control benefits realization by:

- measuring the benefits actually achieved
- identifying any shortfall from the desired benefits
- taking action to close the gap

You may also look for additional benefit opportunities from the project to achieve higher benefits than originally planned. I describe each of these three steps in turn.

Benefits strategy

The first step is to develop a strategy for benefits realization. This will take place during the feasibility stage of the project during project definition.

The process of project definition starts the process of identifying the potential benefits from the project. In the project mandate, and then in the brief or project definition report (OGC, 2002, Turner, 1999) you identify the problem the project will solve, or the opportunity it should exploit. This will indicate the value of the project and the revenues it should produce.

During project definition you will do some problem solving to find the best solution for the project. There may be several ways of solving the problem or exploiting the opportunity. You will consider them all, and the expected cost of each and likely benefit. The potential solutions will not all deliver the full possible benefit, and will have different costs associated with them. In the project feasibility stage you gather information about the likely costs and benefits of each solution, and then choose the best solution. The best solution will be the one that gives the best balance of cost, benefit and risk. Simply put, you choose the highest value solution. Value is benefit/cost. So you don't choose the highest benefit solution, that may cost too much, or the lowest cost solution, that is doing nothing with no return at all. You choose the one that gives the best ratio of cost to benefit, but this may be tempered by risk. You

may actually choose a slightly lower value solution if it has much less risk associated with it, or discount a high value solution if it has a lot of risk associated with it.

At the feasibility stage these calculations are done to a half order of magnitude, that is with an accuracy of $\pm 30\%$.

The project manager and project sponsor prepare the project brief and business plan together. The project manager will be ultimately responsible for delivering the identified solution, with appropriate functionality, for the identified cost (and within the desired timeframe). The project sponsor will be responsible for using that solution to obtain the identified benefit. The business plan should include a statement on how the benefits will be realized.

The chosen solution, and its likely costs and benefits, associated risks and assumptions are recorded in the project brief or project definition report. This forms the basis of the project's business plan. They are considered by senior management at a project review (sometimes called a stage-gate review or toll-gate review) and, if approved, the project will proceed to the design stage and benefits planning.

Benefits planning

During the design stage of the project a more detailed design of the asset to be delivered by the project is produced. This will show more clearly how it will solve the problem or exploit the opportunity.

Identify and model the benefits: It will now be possible to state more specifically what form the benefits will take. It should be possible to model the benefits, producing a model of the asset to be delivered by the project and how it will operate. From this it should be possible to identify the specific benefits and the form they will take, revenue streams or savings. The project deliverable may have several components and these may produce benefits in different ways and may even reinforce each other. Projects often have unfortunate side effects. For instance introducing a new product may reduce the market for an existing product, or a new more efficient piece of machinery may transfer the bottle-neck in a production process. These side effects also need to be identified, Figure 5, and any disbenefits associated with them also identified. The benefits model should also indicate this.

Quantify the benefits and optimise the mix: You need to determine more accurately the potential benefits (and disbenefits) from the benefits model. The calculations should now be accurate to $\pm 10\%$. This will be the basis of

the investment appraisal and sanction for the project to proceed. You need to consider how the different components of the project's deliverables impact on each other, and how those impacts can be optimised to achieve the best outcome. The exact sequence in which the asset produced by the project is commissioned, may have an impact on the optimum mix of benefits.

Plan for benefits realization: As part of the project plan you should develop a benefits realization plan to show how the asset will be commissioned, how it is expected the benefits realization (revenue or savings) will build up, and when measurements will be taken to ensure the desired benefits are being obtained. Risk analysis also needs to be done at this stage: what might cause the desired benefits not to be obtained, and what possible actions can be taken to reduce the chance of that occurring, or the impact if it does occur.

This will form part of the project plan which will be included in the project manual or project initiation document (Turner, 1999; OGC, 2002). However, the project sponsor and not the project manager will be responsible for implementing this part of the plan. It will happen after the project is finished, by which time the project manager should have moved to a new project.

It will proceed to the next review point (stage-gate review, toll-gate review). If approved by senior management, the project will proceed to execution.

Benefits realization

As the project is completed there will be a handover review. The operating team will check that the asset delivered by the project meets its desired functionality by conducting appropriate acceptance tests. They and the project sponsor will accept responsibility for the asset. The benefits realization plan is now implemented, and crucially, achievement of the benefit controlled.

In my book (Turner, 1999) I describe a standard three-step control cycle:

- measure what you are achieving
- compare to the plan and calculate any shortfall
- take action to recover the plan

This should have been done all the way through the project to ensure that the asset is delivered with the appropriate functionality, and within the desired cost and time scales. But it now needs to be applied to benefits realization. This is the last stage of control. Sadly, this is not applied on many projects.

Measure what you are achieving: As the asset comes on stream, and in the following weeks, months and even years, you need ways of measuring the benefit that is actually being achieved, and see how that compares with the plan.

Compare to the plan and calculate any

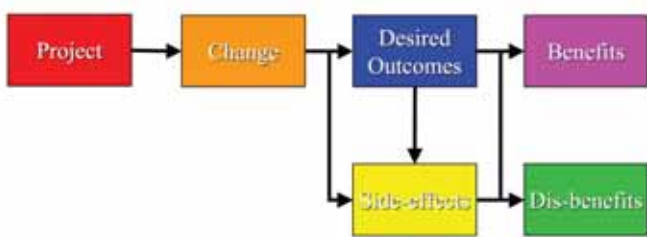


Figure 5: Realizing benefits through change

shortfall: What is being achieved can be compared to the plan, and any shortfall calculated. The reasons for the shortfall need to be determined for two reasons. The first is so they can be eliminated if possible, and the desired benefits obtained. The second is so that the same problems can be avoided on any future projects.

Take action to recover the plan: So if you are not obtaining the benefits you expected, you take action to increase the benefits being obtained to try to achieve what you actually desired, and what is needed to make the project profitable. You might in the process even identify additional benefits you hadn't realized existed during project planning and actually increase the profitability of the project.

If the project does not achieve the desired benefit you need to understand why and hold the project sponsor accountable. But you should avoid living in a blame culture. There are several benefits from understanding why benefits have not been achieved, including:

- you may be able to eliminate the problem and actually achieve the benefit
- you can learn for future projects and improve your estimating
- you can better manage risks on future projects

If the project was potentially very profitable, but some foreseen risk has occurred, the project sponsor should be praised, and you should learn better how to avoid that risk in the future. If some unforeseen risk has occurred, you want to learn why it was unforeseen and try to avoid it in the future. In both those circumstances you should not blame the project manager or project sponsor. You need to learn as an organization.

To make profits you need to take risks and unfortunately risks do sometimes occur. However, if the project sponsor and project manager have been negligent in the initial definition of the project, and it was never likely to be profitable, or the project manager has been negligent in its delivery, you need to understand why that has happened and take appropriate action.

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Organizations that manage risks achieve better project outcomes. Benefits management is an essential part of the project management and project governance process, but it is the responsibility of the project sponsor, not the project manager.

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