Delivering benefits from investment in change

Beyond 'Business as Usual' to 'Value as Usual'

May 2012

FOREWORD

I'm delighted to introduce the fourth in a series of reports discussing how organisations can truly embed the capability necessary to realise benefits from investment in change. Your feedback highlighted the importance of providing an end-to-end view on benefits realisation, including the full asset lifecycle.

Clearly asset investment enables organisations to be successful and effective change is the catalyst for achieving this. London 2012 is a great example of large-scale asset investment, delivering significant value across the UK through new infrastructure and the numerous spin-off benefits. Recently, the Institution of Civil Engineers (ICE) urged the Government to maximise value from the UK's £21bn National Infrastructure Plan. In their view, further measures are needed to "translate plans into outcomes". In addition, recent economic austerity including cost reduction has also created a greater focus on maximising value from assets across all organisations. No longer are value and benefits different technical competencies when clearly they are mutually dependent. We need to maximise the value from all asset investment and benefits realisation is critical to achieving this.

These reports are based on the experience of the authors as leaders of change, supported by an expert panel of contributors and reviewers. We do hope that you find it useful and we look forward to your reactions and thoughts.

Peter Glynne

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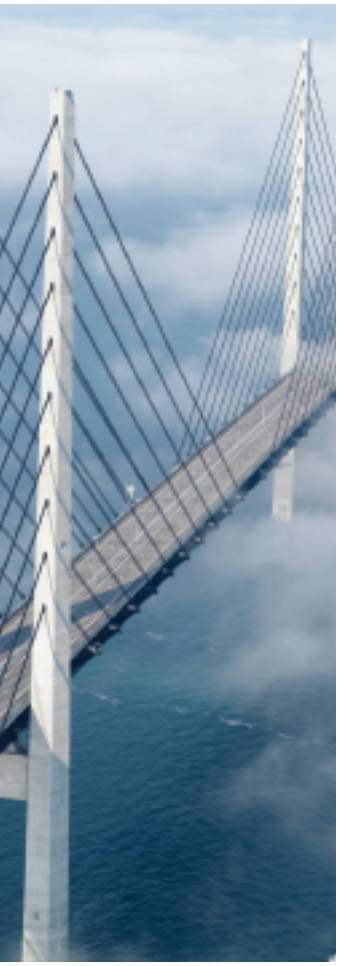
EXECUTIVE SUMMARY



Today's unrelentingly complex and turbulent business environment is driving an increased focus on value in all enterprises, large or small, private or public. In this context, the need to shift the focus of projects and programmes beyond activities and cost, to outcomes and value is being recognised as a priority by a growing number of enterprises - a recognition often triggered by project and programme management (PPM) professionals.

In the first 3 reports in this series, we discussed this shift, presented the need for enterprises to move beyond a culture of delivery to one of value, and discussed how such a culture could be implemented and sustained.

In the earlier reports, we introduced the concept of managing value throughout the full life-cycle of an investment decision, including both the initial investment, and the operation of the new or improved assets that result from that investment. However, the focus, as indeed most progress to date has been, was largely on new investments. There is certainly still much room for improvement here, but even if we succeed, this will not be enough. It is all too easy to assume that once the investment is "complete", the benefits will be realised. In reality, benefits do not just happen, and they rarely happen according to plan . Further, most benefits are realised - or not, and costs incurred when an investment "ends" and the resulting assets are handed over to operations, to be managed in what is often called "business as usual", or "keeping the lights on" (hereinafter referred to as "BAU"). In the case of information technology, for example, only 20-35% of the IT budget relates to new investment, the remaining 65-80% is BAU. In many sectors, acquisition costs for assets such as plant or equipment represent a small percentage of the total cost of ownership over the lifetime of the asset.

This report makes the case that we need to extend benefits management thinking and practices beyond investments to assets - to the on-going operational management of the assets resulting from those investments, and identifies five actions required to achieve this.

1. Take an integrated view of value across investment and asset management
2. Extend governance of value to encompass the full life-cycle of an investment decision
3. Use the business case as a living, operational management tool to support the creation and sustainment of value
4. Embed benefits management practices and competencies across the enterprise
5. Take an incremental approach, delivering demonstrable improvement, and building the foundations for a value culture

The remainder of this report discusses these actions in more detail.

John Thorp
Author

[1] Source: *The Information Paradox* – Realizing the Business Benefits of Information Technology, written by John Thorp jointly with Fujitsu, first published in 1998 and revised in 2003, McGraw-Hill, Canada.

BEYOND "BUSINESS AS USUAL" TO "VALUE AS USUAL"

Organisations continue to struggle with realising value from their increasingly large and complex investments in organisational change. Benefits Management is a key discipline to address this challenge, but is all too often seen as a discretionary add-on, and limited to project and/or programme management. If organisations are to address this challenge, they must take a holistic approach, ensuring that the benefits management discipline is embedded in all the relevant processes across the full life-cycle of the investment decision.

Failing to extend value governance to the full life-cycle view can often result in significant risk of value not being sustained, being eroded or, worse, being destroyed. Examples of this include:

- product lines for which demand has become minimal, or which have been surpassed by superior products or competitor offerings;
- duplicated but disparate services, often the legacy of many years' reorganisations, mergers and acquisitions;
- business processes that, either by design or practice, no longer contribute to or, worse, work against business objectives;
- IT applications that are no longer aligned with business requirements, or not being generally or effectively used;
- Organisational structures and/or people skills that are no longer aligned with business requirements; and
- facilities or equipment that are no longer "fit for purpose".

This report describes the five actions that business leaders must take if they are to extend the incorporation of benefits management beyond investments to assets - to the on-going operational management of the assets resulting from those investments. In describing these actions, the term "value" is used to represent the overarching goal, and the term "value governance" is used to describe an approach to governance that is focused on value, supported by benefits management practices which ensure that benefits are realised from investments and resulting assets, and that those benefits contribute, both individually and collectively, to overall value.

1. Take an integrated view of value across investment and asset management

In many if not most enterprises, investment and asset management are treated as two very distinct disciplines. Some of this is driven by accounting practices, where much of the investment cost is treated as capital cost, while BAU management of assets is treated as an operational cost. It is also exacerbated by organisational structures, as the professional disciplines required to design and develop are normally quite different from those required to operate and maintain. In addition, while cross-disciplinary teams are often put in place to support new investments, these resources return to their organisational "silos" when the investment is "complete", and the resulting assets become BAU.

Ultimately, the goals of investment and asset management should be the same - to create and sustain optimal value to the enterprise by maximising benefits at an affordable cost with a known and acceptable level of risk. If value is to be optimised, there must be an integrated view across investment and asset management such that the future asset value is considered at the investment stage, and the original reasons for making the investment are considered throughout the asset stage. Examples of the failure to integrate these, and their impact, in terms of value erosion or destruction, include:

- failures in "handover" from 'delivery' to 'in service' - investments are delivered into service with inadequate engagement, preparation and on-going support of the user base, who quickly fall back on the old ways of doing things;
- maintenance spend out of line with contribution - the cost of "keeping the lights on" exceeds the contribution of the asset to business value and, conversely;
- assets that are over-performing – over-engineered when basic requirements could be met far more cost-effectively;
- basing strategies on assets that are close to "end of life" and, conversely;
- investing in new "strategic" investments when existing assets are, or could more cost-efficiently and quickly be made "fit for purpose".

To ensure that value is optimised, and avoid costly and, often very visible, failures, the leadership team – the CxOs – must be committed to continually promoting an integrated view of value management across strategy, investment and operational asset management, incorporating proven benefits management, organisational change management and performance management practices. This will require instilling a broader view of assets than the traditional GAAP[2] view – one that includes any resource or capability, tangible or intangible, internal or external to the enterprise, that has the potential to create, sustain or destroy value. Examples of assets included in such a view go beyond physical and financial assets to include others such as human resources, business services, business processes, business relationships, intellectual property etc.

Effective adoption of such an integrated view will also require changes to overall enterprise governance, specifically the value aspects of governance.

2. Extend governance of value to encompass the full life-cycle of an investment decision

While there has been an increased focus on good practice in enterprise governance, much of this focuses on delivery and cost, with limited, at best, attention given to value. Again, where value is considered, most of the focus is on new investments. Benefits management practices, where they exist, are all too often seen as discretionary "add–ons" to discrete processes, each of which make up only part of the full life-cycle of an investment decision. Without extending governance of value to BAU, enterprises are not dealing with the whole picture – the full life-cycle of the investment decision, as illustrated in Figure 1 below.

If enterprises are to come near to maximising value from their investment decisions, the leadership team must be aware, understand, and be committed to accepting and driving ownership and accountability for benefits, and doing so throughout the full life-cycle of investment decisions, including investment management – idea creation through deployment, and operational asset management – sustainment, improvement and eventual retirement of the resulting assets. Ownership and accountability for benefits through the full life-cycle of investment

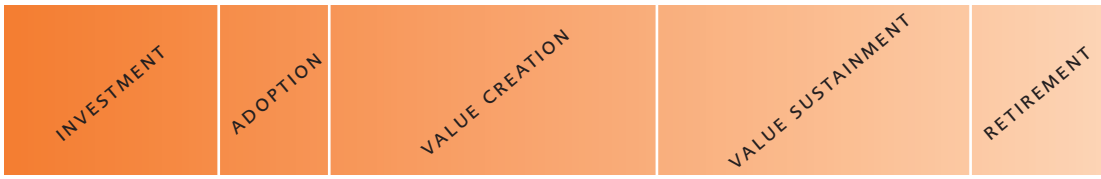


Figure 1: Full life-cycle of an investment decision

[2] Generally Accepted Accounting Principles - the standard guidelines for financial accounting used in any given jurisdiction

decisions must be linked directly to an individual's performance framework and reward package – starting with the leadership team.

Beyond the requisite leadership commitment, this will require changes to:

- governance processes;
- governance structures;
- governance roles and responsibilities;
- information requirements; and
- supporting tools.

Two other factors that will be key to success are; a comprehensive and effectively used business case, and much broader awareness of, and experience with, benefits management practices throughout the enterprise.

3. Use the business case as a living, operational management tool to support the creation and sustainment of value

Business cases sow the seeds of success or failure of investments, and most enterprises spend a lot of time and effort creating business cases – yet research and practice show that little of this currently contributes to the creation or sustainment of value. In the current approach, businesses cases:

- are generally seen as a bureaucratic hurdle to be overcome to "get the money, and run";
- only deal with the initial investment (and even then are incomplete, often based on "delusional optimism or strategic misrepresentation");
- provide detailed information on costs and activities, with limited discussion of benefits;
- are rarely revisited or updated after the initial investment decision; and
- are even more rarely referred to once the results of an investment become BAU.

Business cases must be promoted and used as the key management tool to guide investment decisions, manage investments through to successful implementation (or termination if necessary), and manage the resulting operational assets such that value is created and sustained. The business case should not be, as it all too often is, a static document supporting a one-time investment decision. It is the primary tool to monitor and manage the delivery of both required capabilities and the realisation of desired business outcomes. It should be used as a dynamic management tool – one that is continually updated to reflect the current status of the investment and its resulting assets. It must clearly and unambiguously identify how the performance of the investment and resulting assets will be monitored, the metrics to be used (including delivery, operational and benefits metrics), and who will be accountable for the successful creation of optimal value throughout the full life-cycle of the investment decision.

In the BAU stage, metrics need to be established to answer a number of questions including, but certainly not limited to:

- Is the asset still contributing to our strategic objectives?
- Is that contribution in line with our original expectations? Is it stable, increasing or decreasing?
- Are customer and employee satisfaction levels increasing or decreasing – why?
- Are the operating costs and risks associated with the asset as originally expected? Are they stable, increasing or decreasing?
- Are there opportunities to increase the contribution of the asset and/or to reduce costs or risks associated with the asset? Can the benefits of these opportunities be realised at an affordable cost with a known and acceptable level of risk?

4. Embed benefits management practices and competencies across the enterprise

For benefits management practices, and specifically benefits realisation, to be effective, they must be embedded in all aspects of the investment decision-making process, from strategy through to asset retirement. Benefits realisation competencies are required beyond PPM professionals, and PPM professionals need a broader understanding of the business context for benefits realisation. Limited or separate instances of benefits management lead to inconsistent and disconnected investment and asset management approaches, creating significant risk of missing opportunities to increase value, and wasteful duplication of effort.

The leadership team must be committed to embedding consistent benefits management practices and competencies across the organisation. For this to be successful, it will require:

- addressing the 'what's in it for me' factor by looking at benefits realisation through the various CxOs' lenses, discussing it in their terms, and relating it to their business objectives and issues;
- integrating benefits management practices across strategy, investment and asset management, including operational performance management to drive a new focus on creating and sustaining value from investment in change;
- building "cascading sponsorship" such that benefits management is not dependent on any one individual, and is sustainable through personnel changes;
- respecting professional boundaries (e.g. benefits management practices should complement rather than usurp the role of the finance function) while, at the same time, looking for opportunities for synergy across those boundaries; and
- ensuring that professionals leading benefits management have the necessary business content and context, as well as relationship management skills.

Management programmes will also need to be broadened to include an understanding of value management, including benefits realisation, management of organisational change, and performance reporting.

5. Take an incremental approach, delivering demonstrable improvement, and building the foundations for a value culture

With the current focus on short-term results, CxOs will want to see, and need to be able to, demonstrate tangible results in the short term, or their interest and commitment will soon wane. Yet, experience has shown that full implementation of a value culture will take considerable time – measured in years. Leadership will need to balance achievement of the goal of a value culture with a pragmatic approach to getting there. They will need to:

- identify and build strong relationships with key influencers across the organisation;
- continually reinforce what 'value' means to the organisation – the organisation's "common purpose", by clearly and frequently communicating strategy, including the "what", "why", "how" and "what it means to me" aspects;
- openly recognise and reward those who demonstrate the right behaviours, encouraging others to follow suit;
- structure implementation to deliver results in short time frames, building on each success to build, expand and maintain their own commitment; and
- consolidate early results into a compelling story – continue to enhance and communicate the story widely to reinforce awareness, understanding and commitment across the organisation.

THE WAY FORWARD: FAILURE IS NOT AN OPTION

This is the last in a series of 4 reports discussing the challenge of creating and sustaining value from their investments in change. If organisations are to move beyond words in addressing this challenge, they must place an emphasis on action—on engagement and involvement at every level of the enterprise. Numerous studies, and practical experience, reveal that enterprises that are doing this well, share all or many of the following characteristics:

- A strong executive leadership team with commitment to both communicating strategy and embedding a culture of value - one that focuses on creating and sustaining value from the organisation's investments and assets;
- A highly informed middle management structure used to help coach and embed benefits management practices into the enterprise;
- Clearly defined structure and roles for all stakeholders within a value management framework focused on delivering value to the enterprise;
- A rigorous front-end planning process, with intense scrutiny applied to business cases at selection and throughout their life-cycle, from strategy through initial investment to operational asset management and eventual retirement;
- A long-term commitment to dedicated, trained and informed human resources; and
- A value-based reward system for teams and individuals at all levels within the enterprise.

The primary raison d'être of organisations, and their leaders is, or should be, to create and sustain value for all their stakeholders. While value will mean different things in different organisational contexts, the role of the leadership team is to ensure that there is a clear and shared understanding of what value means to their organisation, and that all decisions are made based on that understanding. Decisions can relate to new investments, such that they balance attractiveness and achievability, or to managing assets resulting from those investments such that they continue to contribute to value at an affordable cost with a known and acceptable level of risk. As presented in this series of reports, this will require moving beyond a delivery culture to one of value, implementing and sustaining the necessary governance processes to do this and, in doing so, taking an integrated view of value, and embedding benefits management practices across investment and asset management. The journey may not be easy, and will need to be taken in well-defined steps, each building on the previous, but it must be taken if organisations are to address the challenge of g and sustaining value. Failure to do so will imperil their very survival.

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