BENEFITS REALIZATION AND VALUE MANAGEMENT\(^1\)

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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 projects were aligned with business objectives or provided benefits and value upon successful completion. Projects were often submitted without any accompanying business case or alignment to business strategy. 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, a waste of precious resources, and in some cases, business value was eroded or destroyed rather than created.

Understanding the Terminology

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

A **benefit** is an outcome from actions, behaviors, products or services that is considered to be important or advantageous to specific individuals, such as business owners, or a group of individuals, such as stakeholders. Generic benefits might include:

- Improvements in quality, productivity or efficiency
- Cost avoidance or cost reduction
- Increase in revenue generation
- Improvements in customer service

Benefits, whether they are strategic or nonstrategic, are normally aligned to the organizational business 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. Other benefits, such as an improvement in employee morale, may be difficult to measure and therefore treated as intangible benefits.

There can also be dependencies between the benefits where one benefit is dependent on the outcome of another. As an example, a desired improvement in revenue generation may be dependent upon an improvement in quality.
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 time as it relates to the desired benefits.

Decision-makers must understand that, over the life cycle of a project, circumstances can change requiring modification of the requirements, shifting of priorities and redefinition of the desired outcomes. It is entirely possible that the benefits can change to a point where the outcome of the project provides detrimental results and the project should be cancelled or backlogged for consideration at a later time. Some of the factors that can induce changes in the benefits and resulting value include:

- **Changes in business owner or executive leadership**: Over the life of a project, there can be a change in leadership. Executives that originally crafted the project may have passed it along to others that either have a tough time understanding the benefits, are unwilling to provide the same level of commitment, or see other projects as providing more important benefits.

- **Changes in assumptions**: Based upon the length of the project, the assumptions can and most likely will change, especially those related to enterprise environmental factors. Tracking metrics must be established to make sure that the original or changing assumptions are still aligned with the expected benefits.

- **Changes in constraints**: Changes in market conditions (i.e. markets served and consumer behavior) or risks can induce changes in the constraints. Companies may approve scope changes to take advantage of additional opportunities or reduce funding based upon cash flow restrictions. Metrics must also track for changes in the constraints.

- **Changes in resource availability**: The availability or loss of resources with the necessary critical skills is always an issue and can impact benefits if a breakthrough in technology is needed to achieve the benefits or to find a better technical approach with less risk.

Project value is what the benefits are worth to someone. Project or business value can be quantified whereas benefits are usually explained qualitatively. When we say that the ROI should improve, we are discussing benefits. But when we say that the ROI should improve by 20%, we are discussing value. Progress toward value generation is easier to measure than benefits realization, especially during project execution. Benefits and value are generally inseparable; it is difficult to discuss one without the other.

Redefining Project Success

For more than five decades, we have erroneously tried to define project success in terms of only the triple constraints of time, cost and scope. We knew decades ago that other metrics should be included in the definition such as value, safety, risk, and customer satisfaction, and that these were attributes of success. Unfortunately, our knowledge of metrics measurement techniques was just in the infancy stage at that time and we selected only those metrics that were the easiest to measure and report, namely time, cost and scope.

Today, metric measurement techniques are maturing to the point where we believe that we can measure just about anything. Perhaps the greatest level of research has been in measuring and reporting business value. During the past two decades, research has been conducted in the following areas:

- Value Dynamics
- Value Gap Analysis
- Intellectual Capital Valuation
- Human Capital Valuation
- Economic Value-Based Analysis
- Intangible Value Streams

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3 For additional information, see Douglas W. Hubbard, How to Measure Anything; Finding the Value of Intangibles in Business, 3rd edition, John Wiley, Hoboken, 2014
The output of the research has created value measurement models and metrics:

- Intellectual Capital Valuation
- Intellectual Property Scoring
- Balanced Scorecard
- Future Value Management™
- Intellectual Capital Rating™
- Intangible Value Stream Modeling
- Inclusive Value Measurement™
- Value Measurement Methodology (VMM)

Value could very well become the most important word in the project manager’s vocabulary, especially in the way that we define project success. In the glossary to the 5th edition of the PMBOK® Guide, a project is defined as a temporary endeavor undertaken to create a unique product, service or result. The problem with this definition is that the unique product, service or result might not create any business value after the project is completed. Perhaps a better definition of a project might be:

- A collection of sustainable business value scheduled for realization

The definition of project success has almost always been the completion of a project within the triple constraints of time, cost and scope. This definition likewise must change because it lacks the word "value" and it doesn’t account for the fact that today we have significantly more than three constraints, and we refer to them as competing constraints. Therefore, the future definition of success might be:

- Achieving the desired business value within the competing constraints

This definition of project success that includes reference to value becomes extremely important when reporting the success of benefit realization and value management activities. With traditional project management, we create forecast reports that include the time at completion and cost at completion. Using the new definition for success, we can now include in the forecast report benefits at completion and value at completion. This now elevates project performance reporting to the corporate boardroom.

There is another inherent advantage to using value as part of the project’s success criteria. We can now establish a termination or “pull the plug” criteria defined in terms of value or benefits which tells us when we should consider cancelling a project before additions funds and resources are squandered. All too often, projects are allowed to linger on and continue wasting valuable resources because nobody has the heart to cancel the failing project. Establishing a cancellation criteria in the business case or benefits realization plan may solve this issue.

The Business Case

Benefits realization and value management begins with the preparation of the business case. There are four major players in benefits realization and value management projects:

- A governance committee composed of members that possess at least a cursory level of knowledge of project management
- The benefits or business owner
• The change management owner, if organizational change management is necessary to harvest the benefits at project completion
• Project and/or program managers

The business owner is responsible for the preparation of the business case as well as contributing to the benefits realization plan. Typical steps that are included as part of business case development are:

• Identification of opportunities such as improved efficiencies, effectiveness, waste reduction, cost savings, new business, etc.
• Benefits defined in both business and financial terms
• A benefits realization plan
• Estimated project costs
• Recommended metrics for tracking benefits and value
• Risk management
• Resource requirements
• High level schedules and milestones
• Degree of project complexity
• Assumptions and constraints
• Technology requirements; new or existing
• Exit strategies if the project must be terminated

Templates can be established for most of the items in the business case. A template for a benefits realization plan might include the following:

• A description of the benefits
• Identification of each benefit as tangible or intangible
• Identification of the recipient of each benefit
• How benefits will be realized
• How 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

**Measuring Benefits and Value**

The growth in metric measurement techniques has made it possible to measure just about anything. This include benefits and value. But at present, since many of the measurement techniques for newer metrics are in the infancy stage, there is still difficulty in obtaining accurate results. Performance results will be reported both quantitatively and qualitatively. There is also difficulty in deciding when to perform the measurements; incrementally as the project progresses or at completion. Measurements on benefits and value are more difficult to determine incrementally as the project progresses than at the end.

Value is generally quantifiable and easier to measure than benefits. 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. Value measurements at the end of the project, or shortly
thereafter, are generally more accurate than ongoing value measurements as the project progresses.

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. An example might be a technical prima donna that views this project as his/her chance for glory and tries to exceed the requirements to a point where the schedule slips and business opportunities are missed. This occurs when team members believe that personal objectives are more important than business objectives.

**Life Cycle Phases**

For years, academia taught that traditional project life cycle phases begin once the project is approved and a project manager is assigned, and end after the deliverables have been created. However, when benefits realization and value management become important, there are additional life cycle phases that must be included as shown in Exhibit 1. Project managers are now being brought on board earlier than before and remaining after the deliverables have been produced to measure the business value created. Exhibit 1 is more representative of an investment life cycle than a traditional project life cycle. If value is to be created, then the benefits must be managed over the complete investment life cycle. The traditional 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.

![Exhibit 1: Investment Life Cycle](image)

The **Idea Generation Phase**, which often includes a feasibility study and a cost-benefit analysis, is where the idea for the project originates. The idea can originate in the client’s or business owner’s organization, within the senior levels or lower levels of management in the parent company or the client’s firm, or within the organization funding the project. The output of the Idea Generation Phase is usually the creation of a business case.

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 can be quantified. The benefits actually achieved may be significantly different from the expected benefits defined at project initiation because of many of the reasons stated previously that can induce changes.
Not all projects require the creation of a business case. Examples might include projects that are mandatory for regulatory agency compliance and are well understood or simply to allow the business or part of the business to continue more efficiently.

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 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 business value of the portfolio through proper balancing of critical resources and proper prioritization of projects. The PMO must address three critical questions as shown in Exhibit 2.

<table>
<thead>
<tr>
<th>Critical Questions</th>
<th>Areas of Consideration</th>
<th>Portfolio Tools and Processes</th>
</tr>
</thead>
<tbody>
<tr>
<td>Are we doing the right things?</td>
<td>• Alignment to the strategic goals and objectives such as shareholder value, customer satisfaction or profitability&lt;br&gt;• Evaluation of internal strengths and weaknesses&lt;br&gt;• Evaluation of available and qualified resources</td>
<td>• Templates to evaluate rigor of the business case&lt;br&gt;• Strategic fit analysis and linkage to strategic objectives&lt;br&gt;• Matrix showing the relationships between projects&lt;br&gt;• Resources skills matrices&lt;br&gt;• Capacity planning templates&lt;br&gt;• Prioritization templates</td>
</tr>
<tr>
<td>Are we doing the right things right?</td>
<td>• Ability to meet expectations&lt;br&gt;• Ability to make progress toward benefits&lt;br&gt;• Ability to manage technology&lt;br&gt;• Ability to maximize resource utilization</td>
<td>• Benefit realization plans&lt;br&gt;• Formalized, detailed project plans&lt;br&gt;• Establishing tracking metrics and KPIs&lt;br&gt;• Risk analysis&lt;br&gt;• Issues management&lt;br&gt;• Resource tracking&lt;br&gt;• Benefits/value tracking</td>
</tr>
<tr>
<td>Are we doing enough of the right things?</td>
<td>• Comparison to strategic goals and objectives&lt;br&gt;• Ability to meet all of the customers’ expectations&lt;br&gt;• Ability to capture all business opportunities which are within the capacity and capability of the company’s resources</td>
<td>• Overall benefits tracking&lt;br&gt;• Accurate reporting using the project management information system</td>
</tr>
</tbody>
</table>

Exhibit 2: Typical Role for a Portfolio PMO

The activities identified with the 3rd question in Exhibit 2 are usually part of the portfolio PMO’s responsibility for determining if all of the benefits were captured or if additional projects need to be added to the queue.
Most companies tend to believe that the project managers should be brought on board the project after the project has been approved and added to the queue. The argument is that project managers are not business people, have limited information that could help in the approval process and are paid to make just project-based decisions. This is certainly not true today. In today’s world, project managers view themselves as managing part of a business rather than just managing a project. As such, project managers are paid to make both project-based and business-related decisions on their projects.

When project managers are brought on board after project approval, they are at the mercy of the information in the business case and benefits realization plan. Unfortunately, these two documents do not always contain all of the assumptions and constraints, nor do they discuss the thought process that went into creating the project.

Perhaps the most important reason for bringing the project manager on board early is for resource management. Projects are often approved, added to the queue and prioritized with little regard for the availability of qualified resources. Then, when the benefits are not delivered as planned, the project manager is blamed for not staffing the project correctly.

Project managers may very well be the best people qualified to critically identify the number of resources needed and the skill levels of the assign staff. This makes it easier for the portfolio governance personnel to perform effective resource management practices according to Exhibit 3.

Even when assigning project managers early in the investment life cycle, resource management shortcoming can occur such as:

- Not all resource demands are captured
- Poor knowledge of the resource skill levels needed still exists
- Resource needs can change on a project due to scope changes
- Not accounting for the resources that may be needed if transformational activities are required
- A shifting of priorities due to fire-fighting on other critical projects
- Having unrealistic benefit and value estimates

If the shortcomings are not identified and properly managed, the results can be:

- A failure of benefits realization planning
- No maximization of portfolio business value
- Continuous changes to the portfolio
- Continuous reprioritization
- Continuous conflicts over manpower
Exhibit 3: Resource Management Activities

The third life cycle phase is the **Project Planning Phase**. This phase includes preliminary planning, detailed planning, and updates to 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 and the accompanying project plan may undergo continuous changes as the project progresses based upon changing business conditions.

The fourth life cycle phase is the **Delivery Phase**. This phase, as well as the Project Planning Phase, are most commonly based upon the domain areas of the *PMBOK® Guide*. Traditional project management methodologies are used. In this phase, the project manager works closely with the PMO, the business owner and the steering/governance committee to maximize the realization of the project’s benefits.

Performance reporting must be made available to the portfolio PMO as well as to the appropriate stakeholders. If the project is no longer aligned with business objectives that may have 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 portfolio benefits.

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 identification 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. However, companies are now creating value metrics that can be measured throughout the project rather than just at the end.4

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The last two life cycle phases are often called benefits harvesting phases which is the actual realization of the benefits and accompanying value. Harvesting may necessitate the implementation of an organizational change management plan that may remove people from their comfort zone. Full benefit realization may face resistance from managers, workers, customers, suppliers and partners. There may be an inherent fear that change will be accompanied by loss of promotion prospects, less authority and responsibility, and possible loss of respect from peers.

Benefits harvesting may also increase the benefits realization costs because of:

- Hiring and training new recruits
- Changing the roles of existing personnel and providing training
- Relocating existing personnel
- Providing additional or new management support
- Updating computer systems
- Purchasing new software
- Creating new policies and procedures
- Renegotiating union contracts
- Developing new relationships with suppliers, distributors, partners, and joint ventures

**Categories of Benefits and Value**

Part of strategic planning is to create a balanced portfolio of projects. For simplicity sake, we will use the four categories of projects shown in Exhibit 4. These same four categories can then be used to identify the categories of benefits and value. There are numerous benefits, value and accompanying metrics that can be used for each category. Only a few appear here as examples.

![Categories of Benefits and Values](image-url)
Metrics must be established in each quadrant to serve as early warning signs of possible problems. Some examples of metrics that can identify benefit erosion problems might be:

- Metrics on the number of scope changes that 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 unresolved issues
- Metrics on missed deadlines could indicate that the time-to-market may slip and opportunities may be lost

Exhibit 5 shows typical benefits for each of the four categories. The metrics in the last column can be used to track the benefits.

<table>
<thead>
<tr>
<th>Category</th>
<th>Benefits</th>
<th>Project Tracking Metrics</th>
</tr>
</thead>
<tbody>
<tr>
<td>Internal Benefits</td>
<td>• Processes for adherence to constraints</td>
<td>• Time</td>
</tr>
<tr>
<td></td>
<td>• Templates for identifying objectives, sign-offs, and capturing best practices</td>
<td>• Cost</td>
</tr>
<tr>
<td></td>
<td>• Maintaining a best practices and metrics library</td>
<td>• Scope</td>
</tr>
<tr>
<td></td>
<td>• Control of scope changes</td>
<td>• Quality</td>
</tr>
<tr>
<td></td>
<td>• Control of action items</td>
<td>• Number of scope changes</td>
</tr>
<tr>
<td></td>
<td>• Reduction in waste</td>
<td>• Duration of open action items</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Number of resources</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Amount of waste</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Efficiency</td>
</tr>
<tr>
<td>Financial Benefits</td>
<td>• Improvements in ROI, NPV, IRR and payback period</td>
<td>• Financial metrics</td>
</tr>
<tr>
<td></td>
<td>• Cash flow</td>
<td>• ROI calculators</td>
</tr>
<tr>
<td></td>
<td>• Improvements in operating margins</td>
<td>• Operating margin</td>
</tr>
<tr>
<td></td>
<td>• Maintaining or increasing market share</td>
<td></td>
</tr>
<tr>
<td>Future (Strategic) Benefits</td>
<td>• Reducing time-to-market</td>
<td>• Time</td>
</tr>
<tr>
<td></td>
<td>• Image/reputation</td>
<td>• Surveys on image and reputation</td>
</tr>
<tr>
<td></td>
<td>• Technical superiority</td>
<td>• Number of new products</td>
</tr>
<tr>
<td></td>
<td>• Creation of new technology or products</td>
<td>• Number of patents</td>
</tr>
<tr>
<td></td>
<td>• Maintaining a knowledge repository</td>
<td>• Number of retained customers</td>
</tr>
<tr>
<td></td>
<td>• Alignment of projects to strategic objectives</td>
<td>• Number of new customers</td>
</tr>
<tr>
<td>Customer-Related Benefits</td>
<td>• Customer loyalty</td>
<td>• Loyalty/customer satisfaction</td>
</tr>
<tr>
<td></td>
<td>• Number of customers allowing you to use their name as a reference</td>
<td>surveys</td>
</tr>
<tr>
<td></td>
<td>• Improvements in customer delivery</td>
<td>• Time-to-market</td>
</tr>
<tr>
<td></td>
<td>• Customer satisfaction ratings</td>
<td>• Quality</td>
</tr>
</tbody>
</table>

Exhibit 5: Benefits in Each Category
Sometimes, the benefits result in best practices that can be applied to other projects. Exhibit 6 illustrates benefits from several companies and in which quadrant the benefits appeared. Some benefits can be attributed to more than one quadrant.

<table>
<thead>
<tr>
<th>Company</th>
<th>Benefit Category</th>
<th>Benefit</th>
</tr>
</thead>
<tbody>
<tr>
<td>General Electric</td>
<td>Future</td>
<td>Improving productivity</td>
</tr>
<tr>
<td>Motorola</td>
<td>Financial</td>
<td>Control of scope creep</td>
</tr>
<tr>
<td>Computer Associates</td>
<td>Internal</td>
<td>Better handling of customer expectations</td>
</tr>
<tr>
<td>ABB</td>
<td>Future</td>
<td>Project audits to seek out continuous improvement opportunities</td>
</tr>
<tr>
<td>Westfield Group</td>
<td>Internal</td>
<td>Development of an on-line Intranet EPM system</td>
</tr>
<tr>
<td>Antares Solutions (Medical Mutual)</td>
<td>Customer-Related</td>
<td>Customer-focused change control process</td>
</tr>
</tbody>
</table>

Exhibit 6: Company-Specific Benefits

As mentioned previously, it is important to know whether the measurements of benefits and value should be done incrementally or at the end of the project. Examples of this are shown in Exhibit 7. As mentioned previously, end-of-project measurements are generally more accurate, but some measurements may also be made incrementally.

<table>
<thead>
<tr>
<th>Benefit Category</th>
<th>Benefit</th>
<th>Measured Incrementally</th>
<th>Measured at the End</th>
</tr>
</thead>
<tbody>
<tr>
<td>Internal</td>
<td>Speed up sign-offs</td>
<td>Yes</td>
<td></td>
</tr>
<tr>
<td>Financial</td>
<td>Improving the ROI, NPV, IRR and shortening the payback period</td>
<td>Yes</td>
<td>Yes</td>
</tr>
<tr>
<td>Future (Strategic)</td>
<td>Speed up the product commercialization process</td>
<td>Yes</td>
<td></td>
</tr>
<tr>
<td>Customer-Related</td>
<td>Improving customer satisfaction</td>
<td>Yes</td>
<td></td>
</tr>
</tbody>
</table>

Exhibit 7: Examples of Benefits

Converting Benefits to 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 final value may be different from the planned value based upon the deliverables produced and the financial assumptions made. Here are two examples of converting benefits to value:

- A company approved the development of a customized software package with the expected benefit of reducing order entry processing time, which would be a savings of approximately $1.5 million annually. The cost of developing the package was estimated at $750,000. The value calculation was as follows:

  \[
  \text{Value} = (60 \text{ workers}) \times (5 \text{ hours/week}) \times ($100/\text{hour}) \times (50 \text{ weeks}) = $1.5 \text{ million in yearly savings}
  \]

• A company decided to create a dashboard project performance reporting system to reduce paperwork and eliminate many non-productive meetings. The value calculation was made as follows:
  ° Eliminate 100 pages or reports and handouts each month at a fully burdened cost of $1000/page, or a savings of $1.2 million.
  ° Eliminate 10 hours of meetings per week for 50 weeks, with 5 people per meeting and at $100 per hours, or a savings of $250,000
  
  Value = $1,200,000 + $250,000 = $1.45 million in yearly savings

In both cases, the company received multi-year benefits and value from the projects.

**Portfolio Benefits and Value:**

The project tracking metrics identified in Exhibit 5 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 portfolio of projects. Exhibit 8 shows the metrics that can be used to measure the overall value created by project management on individual projects, 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 that represent the benefits and value of the entire portfolio. These metrics can be created by grouping together metrics from several projects. Benefits and value metrics are also used to help create the portfolio metrics.

<table>
<thead>
<tr>
<th>Project Management</th>
<th>Traditional PMO</th>
<th>Portfolio PMO</th>
</tr>
</thead>
<tbody>
<tr>
<td>Adherence to schedule baselines</td>
<td>Growth in customer satisfaction</td>
<td>Business portfolio profitability or ROI</td>
</tr>
<tr>
<td>Adherence to cost baselines</td>
<td>Number of projects at risk</td>
<td>Portfolio health</td>
</tr>
<tr>
<td>Adherence to scope baselines</td>
<td>Conformance to the methodology</td>
<td>Percentage of successful portfolio projects</td>
</tr>
<tr>
<td>Adherence to quality requirements</td>
<td>Ways to reduce the number of scope changes</td>
<td>Portfolio benefits realization</td>
</tr>
<tr>
<td>Effective utilization of resources</td>
<td>Growth in the yearly throughput of work</td>
<td>Portfolio value achieved</td>
</tr>
<tr>
<td>Customer satisfaction levels</td>
<td>Validation of timing and funding</td>
<td>Portfolio selection and mix of projects</td>
</tr>
<tr>
<td>Project performance</td>
<td>Ability to reduce project closure rates</td>
<td>Resource availability</td>
</tr>
<tr>
<td>Total number of deliverables produced</td>
<td></td>
<td>Capacity and capability available for the portfolio</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Utilization of people for portfolio projects</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Hours per portfolio project</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Staff shortage</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Strategic alignment</td>
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<tr>
<td></td>
<td></td>
<td>Business performance enhancements</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Portfolio budget versus actual</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Portfolio deadline versus actual</td>
</tr>
</tbody>
</table>

**Exhibit 8: Metrics for Specific Types of PMOs**
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. Therefore, metrics must also be established to measure the value that the PMO brings to the parent organization.

It is important to understand that some of the micro metrics we use for tracking benefits may have a different meaning for the customer or ultimate consumer. 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 9 shows how each of the metrics may be interpreted differently. 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 as well as the associated metrics.

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

Exhibit 9: Interpretation of the Metrics

Alignment to Strategic Objectives

Because of advances in metric measurement techniques, models have been developed by which we can show the alignment of projects to strategic business objectives. One such model appears in Exhibit 10. Years ago, the only metrics we would use were time, cost and scope. Today, we can include metrics related to both strategic value and business value. This allows us to evaluate the health of the entire portfolio of projects as well as individual projects.

Since all metrics have established targets, we can award points for each metric based upon how close we come to the targets. Exhibit 11 shows that the project identified in Exhibit 10 has received thus far 80 points out of a possible 100 points. Exhibit 12 shows the alignment of projects to strategic objectives. If the total score in Exhibit 11 is between 0-50 points, we would assume that the project is not contributing to strategic objectives at this time, and this would be shown as a zero or blank cell in Exhibit 12. Scores between 51-75 points would indicate a “partial” contribution to the objectives and shown as a one in Exhibit 12. Scores between 76-100 points would indicate fulfilling the objective and shown as a two in Exhibit 12. Periodically we can summarize the results in Exhibit 12 to show management Exhibit 13 which illustrates our ability to create the desired benefits and final value.
Exhibit 10: Project Scoring Model

Exhibit 11: Project Scoring Model with Points Assigned
### Matching Projects to Strategic Objectives

<table>
<thead>
<tr>
<th>Strategic Objectives:</th>
<th>Project 1</th>
<th>Project 2</th>
<th>Project 3</th>
<th>Project 4</th>
<th>Project 5</th>
<th>Project 6</th>
<th>Project 7</th>
<th>Project 8</th>
<th>Scores</th>
</tr>
</thead>
<tbody>
<tr>
<td>Technical Superiority</td>
<td>2</td>
<td>1</td>
<td>2</td>
<td>1</td>
<td>1</td>
<td></td>
<td></td>
<td></td>
<td>6</td>
</tr>
<tr>
<td>Reduced Operating Costs</td>
<td></td>
<td>2</td>
<td></td>
<td></td>
<td>2</td>
<td>2</td>
<td></td>
<td></td>
<td>4</td>
</tr>
<tr>
<td>Reduced Time-To-Market</td>
<td>1</td>
<td>1</td>
<td>2</td>
<td>1</td>
<td>1</td>
<td></td>
<td></td>
<td></td>
<td>8</td>
</tr>
<tr>
<td>Increase Business Profits</td>
<td>2</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>7</td>
</tr>
<tr>
<td>Add Manufacturing Capacity</td>
<td>1</td>
<td>2</td>
<td>2</td>
<td></td>
<td>1</td>
<td></td>
<td>1</td>
<td></td>
<td>7</td>
</tr>
<tr>
<td><strong>Column Scores</strong></td>
<td>4</td>
<td>0</td>
<td>6</td>
<td>7</td>
<td>4</td>
<td>5</td>
<td>0</td>
<td>6</td>
<td></td>
</tr>
</tbody>
</table>

**Scores:**

1. No Contribution
2. Supports Objective
3. Fulfills Objective

---

### Yearly Benefits/Value Achieved

<table>
<thead>
<tr>
<th>Year</th>
<th>Percent of Yearly Benefits/Value Received</th>
</tr>
</thead>
<tbody>
<tr>
<td>2015</td>
<td>80%</td>
</tr>
<tr>
<td>2014</td>
<td>60%</td>
</tr>
<tr>
<td>2013</td>
<td>0%</td>
</tr>
</tbody>
</table>

---

**Exhibit 12: Match Projects to Strategic Business Objectives**

**Exhibit 13: Periodic Benefits and Value Achieved**
Causes of Complete or Partial Failure

No matter how hard we try to become good at benefits realization and value management, there are always things that can go wrong and lead us to disaster. Fourteen such causes of failure that can occur along the entire investment life cycle include:

- No active involvement by the business owner or stakeholders
- Decision-makers are unsure about their roles and responsibilities, especially in the early life cycle phases
- The project is approved without a business case or benefits realization plan
- A high level of uncertainty and ambiguity exists in defining the benefits and value such that they cannot be described adequately in a document such as a benefits realization plan
- Highly optimistic or often unrealistic estimates of benefits are made to get project approval and a high priority
- Failing to recognize the importance of effective resource management practices and the link to benefits realization management
- Maintaining a heavy focus on the project’s deliverables rather than on benefit realization and the creation of business value
- Using the wrong definition of project success
- Managing the project with traditional rather than investment life cycle phases
- Using the wrong metrics, unreliable metrics or simply having a lack of metrics to track benefits and value
- Failing to track benefits and value over the complete life cycle
- Not having a criteria establish for when to cancel a failing project
- Having no transformational process if necessary where the benefits and value can be achieved only from organizational change management
- Failing to capture lessons learned and best practices, thus allowing mistakes to be repeated

The last bullet is often the solution to correct the first thirteen causes from reoccurring.

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.

Harold Kerzner, Ph.D. is IIL’s Senior Executive Director for Project Management. He is a globally recognized expert on project management and strategic planning, and the author of many best-selling textbooks, most recently *Project Management 2.0*. 
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