

RELEVANT TO ACCA QUALIFICATION PAPER P3

Project management: business cases and gateways

It can be assumed that whenever an organisation embarks on a project to improve its performance and results, the project is expected to bring benefits to that organisation.

This statement might seem self-evident, but it requires care to ensure that all the effects of a project (both benefits and disbenefits) are evaluated in advance as carefully as possible, and that the project is closely monitored and re-evaluated throughout its progress. Furthermore, it is vital to ensure that benefits are realised. For example, a new IT system could be implemented on time and within cost budget, but if staff, customers or suppliers resist making use of new facilities offered, then no benefits will be realised from the project.

The challenges will be dealt with under the following headings:

1. Constructing a business case
2. Carrying out the project, keeping it under constant review
3. Reviewing the results

CONSTRUCTING A BUSINESS CASE

At its simplest, this could simply mean showing that a proposed project has a positive net present value ('NPV'). Indeed, when you are carrying out an NPV calculation you are often presented with the cash flows expected to arise from a 'project'. However, applying discount factors to a set of cash flows is by far the easiest part of any NPV calculation. The real skill is to be found in assessing what the cash flows are likely to be. It is here, for example, that predictions need to be made about changes in market share, revenue, and competitor reactions.

Constructing a business case, therefore, needs to be broken down into a series of steps:

- Identification of the organisation's drivers and where improvement is required.
- Identification of the organisation's stakeholders and how they are affected.
- Identification and classification of benefits and disbenefits.
- Planning of benefits realisation.

Identification of the organisation's drivers and where improvement is required

An organisation's drivers should relate back to its mission and its stakeholders' perception of the organisation's purpose. A profit-seeking organisation will ultimately be interested in increasing shareholder wealth and any project undertaken should, at least in the long term, lead towards that. Not-for-profit organisations are more complex, but in a school, for example, you would expect children's educational standards to be important, and in a hospital you would expect patient care and effective treatment to be part of its purpose.

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Complacent management might never see any need for improvement in organisations, but that approach is usually the road to ruin. Both internal and external changes will mean that management must continually respond to events so that improvement and benefits are constantly sought. This is simply the process of strategic appraisal and the tools and frameworks should be familiar. They include:

- PESTEL – looking at changes in the macro-environment. For example, a new government might establish strict requirements for hospitals to measure their success in diagnosing and curing certain diseases. This political driver could mean that the hospital has to respond with a project that involves buying new equipment and setting up new clinics.
- Porter's five forces – looking at the activities of competitors, customers, new entrants, suppliers and the emergence of substitutes. For example, a new, powerful, low-cost competitor could be eyeing up the market. In response, the company might consider embarking on a project to allow it to personalise its production so that it can offer differentiation as a way of combating the increased competition.
- Resources and competences. For example, if the company's research and development efforts have been disappointing then it might consider taking over a successful smaller competitor in order to buy in know-how and patent rights. Taking over that competitor might be defined as a project.
- The value chain. For example, if customers' tastes change and what was previously valued is no longer appreciated, then the company will have to establish a project to find and implement new ways of adding value.

Of course, all of the results from these frameworks can be summarised in a SWOT analysis.

It can also be useful to classify potential improvements as arising from:

- doing new things – for example, expanding into new overseas markets
- doing existing things better – for example, generating market growth
- stop doing things – for example, closing down part of the company's operations.

Identification of the organisation's stakeholders and how they are affected

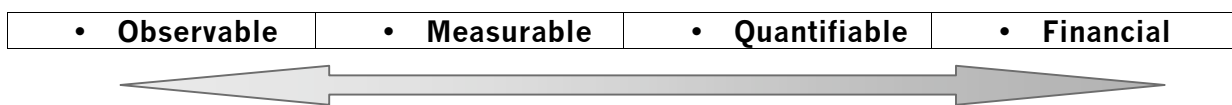
It is important that this step is carried out early in a project's life. It was stated above that projects should be undertaken if they are expected to bring benefits to the organisation. However, that is a considerable simplification because it regards the organisation and its purposes as consisting of a set of homogeneous interests. In reality, many stakeholders are involved and their requirements and preferences are likely to be diverse.

Any given project is likely to have implications that benefit some stakeholders, do not affect others, and which bring disbenefits to the remainder. For example, if a bank is considering closing its branch network and operating only over the internet, then its premises costs will decrease (a benefit), but customers might be alienated (a disbenefit). The hospital example mentioned above could mean that resources are switched from one group of patients to another as a result of political pressure.

Organisations cannot always choose simply to enjoy the benefits of any change while disregarding disbenefits; benefits and disbenefits usually come as a package. So, when it comes to identifying and classifying benefits and disbenefits (see below), it is important that organisations carefully identify *all* affected stakeholders so that they will have a greater chance of evaluating *all* the potential effects of a project. They must also assess the power and influence of the stakeholders because powerful, motivated, disgruntled stakeholders can cause projects to fail.

Identification and classification of benefits and disbenefits

Ward and Daniel¹ classify benefits as observable, measurable, quantifiable and financial. Rather than regarding these as discrete differences, they might be better presented as a continuum as the distinctions between them are not always definite:



Observable benefits

Observable benefits are those that cannot be objectively measured and their assessment depends on the views of appropriately experienced observers. These benefits relate mainly to matters such as customer satisfaction, staff morale, ethical standing and empathy with patients. They are of relatively little use in initial project justification because they are so difficult to communicate with any accuracy, but undoubtedly they can be recognised after projects have been completed. Almost inevitably, efforts are made to try to measure these 'soft' benefits because then they become easier to deal with and less reliance needs to be invested in the opinions of the observing experts.

It is important to realise that many observable effects are also likely to be unexpected effects. The very fact that they are unexpected means that no attempt will have been made to measure them; only after the project has been completed do they become obvious. This does not mean that effects that are merely observable or unexpected are unimportant. Some of the most significant benefits and disbenefits are those that surprise everyone dealing with the project. An example can be seen in a new intranet and group working software being implemented in a firm of accountants. The expected benefit might be faster communication, but an unexpected benefit might be the ability to shift routine work to less expensive staff situated in cheaper areas of the country.

Measurable benefits

This term has a very precise meaning: the benefit can be measured objectively, but it is not possible to predict how a project will change it in advance. By definition, these benefits are not going to be very useful when constructing a business case for a project. However, retrospectively, it will be extremely interesting to see how various measures have moved and these effects will be important in post-implementation reviews.

Quantifiable benefits

Here, the extent of the benefits or improvements can be forecast. It is only once benefits have become quantifiable that there is any hope of progressing to financial measurement and the construction of a sound economic business case for the project. There are several challenges:

- Ensuring that all quantifiable benefits and costs are captured. If an important factor is omitted, then the analysis will be distorted.
- Establishing a starting point – a baseline against which changes can be compared. This requires measurement techniques to be established.
- Predicting the changes that the project will cause – turning measurable changes into quantifiable changes.

Ward and Daniel offer suggestions for transforming measurable to quantifiable:

- Pilot operations. For example, implement a new inventory system in one branch and carefully monitor results. Extrapolate changes company-wide.
- External benchmarking. Monitor what other industry members are achieving using their approaches. If possible, monitor the best-in-class performance. If a rival performs better and uses a particular approach to business, then there might be evidence there about how our performance would change.
- Reference sites. External benchmarking is not available for changes that are relatively new to an entire industry because there are few comparisons available. However, unless a company is absolutely the first, often reference sites will exist where suppliers have persuaded another organisation to be an early adopter of new technology or methods. Some care is needed here as, obviously, suppliers will not readily provide information about their failures.
- Modelling and simulation. For example, if an organisation has a sophisticated financial model on a spreadsheet, then different assumptions can be introduced and the results quickly seen. Call centres keep very careful records of queuing times and the number of callers who hang-up before being attended to. They can extrapolate with some confidence the effect of reducing waiting times.
- Historical internal data. This is particularly relevant to organisations thinking about stopping an activity. It is important that their cost data is accurate so that the true implications of ceasing an activity are properly quantified. Activity-based costing is almost certainly more relevant than the conventional treatment of fixed overheads.

Financial benefits

Once changes have been quantified, it should be a reasonably easy step to convert those to financial effects. It is important that this is done – at least for profit-seeking organisations – and that the calculations are not distorted to ensure that a project is improperly justified. Typically, net present value or return on capital calculations will be used to evaluate the financial effects. Sensitivity analysis will be an essential part of the exercise to identify risk areas and plan for more investigative work to be done there.

Planning of benefits realisation

Planning of benefits realisation means:

- assigning dates by which defined benefits should be enjoyed
- detailing the implementation and change management procedures needed to ensure that the expected benefits are actually achieved as fully as possible
- establishing dates and methodologies for measurement of the benefits for subsequent comparison to plans.

Note that the opportunities for benefit creation will start with completing the various parts of a project (its activities) on time, within budget, to the correct quality standards, and focused accurately on previously agreed outcomes. However, although each part of a project can be properly delivered, the project as a whole can fail to produce benefits unless it is whole-heartedly embraced by key stakeholders. For example, a technically excellent new website could be implemented, but if customers choose not to use it then few benefits will arise.

CARRYING OUT THE PROJECT, KEEPING IT UNDER CONSTANT REVIEW

The Office of Government Commerce (OGC) is an independent office of the UK Treasury, established to help government deliver best value from its spending. The OGC has developed the OGC Gateway™ Process in which projects are examined at various key decision points before they are allowed to progress to the next stage. This UK-based example is indicative of a formal system of project implementation and review where evaluation takes place at several gateway points to ensure that the original business case, the project objectives and expected benefits continue to be achieved.

The OGC Gateway™ Process can be represented as follows:

Stages of the project	OGC Gateway™ reviews	
Develop business case		Review 0: continuous, throughout project
← Develop delivery strategy	Review 1: examine the business justification	Ensure the project is still relevant to the overall strategy of the organisation
← Carry out competitive procurement	Review 2: examine the suggested delivery strategy	Ensure that the programme is supported by key stakeholders
← Design, build, test	Review 3: investment decision	Review the arrangements for managing and monitoring the project
← Implement	Review 4: verify readiness for implementation	Review the arrangements for identifying and managing the main risks, including risks such as changing business priorities
← Ongoing management of delivered solution	Review 5: operational review and benefits realisation	Check that provision for sufficient financial and other resources has been made for the project

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After the project business case is established, Gateway's review 1 would be carried out to examine the justifications and arguments presented. The reviewing board will be looking for benefits and disbenefits that might have been overlooked or assumptions that appear to be unrealistic.

If all is well, the project will go forward to the next stage in which a detailed delivery strategy is worked out. The 'Who? How? When? What?' questions are addressed here. For example:

- Who will be on the project team?
- How much will be subcontracted?
- What exactly will be delivered and by when?

Review 2 will look critically at these decisions and objectives. Only when the reviewing board is satisfied that the project is sufficiently well-defined and specified will it give the go-ahead to receive tenders from outside suppliers.

After the competitive tenders have been received, the next stage will be signing a supply contract and committing the organisation to substantial expenditure. Before that is done, Review 3 will look at the tenders received, their costs, the standing and competence of the suppliers and whether – now that costs are known more accurately – the project still offers value for money (net benefits).

Assuming the supply contract is signed, then investment in the project will start. It could be an IT project requiring software design, writing and testing; it could be a project to reorganise the structure and reporting lines of the company; it could be a project to merge with a rival organisation. However, before action is taken and the software or plans are implemented, it is important to review what is proposed. There is no point in trying to implement proposals that are not-tested, incomplete or poorly designed. So Review 4 will look at the project plans and see if they are sufficiently robust and comprehensive to attempt to implement. It will also be necessary to ensure that the organisation is ready for implementation of the plans.

Review 5 then looks at the results that the project is delivering. Have the expected benefits materialised? If not, then why not? Can shortfalls in benefits or unexpected disbenefits be corrected? Review 5 could be carried out several times as the new solution gradually settles down and management problems are ironed out.

Note carefully the purpose of Review 0. This should be carried on continuously throughout the project and is there to keep questioning whether the original business case on which the project was predicated remains valid. No matter how meticulously a project is managed, changing events can suddenly undermine a business case. For example, a project to build a new factory can suddenly look uneconomic if the economy suffers a sharp fall. Or, further investment in a project might be pointless if its completion seems to be in jeopardy because funds have become very tight.

REVIEWING THE RESULTS

After a project has been implemented, there are three types of review that should be performed, reflecting different perspectives.

- A post-project review. This examines how the project went in terms of how the project team and how the project manager performed and identifying what aspects of planning and review went well and what didn't go so well. Was the project completed within time and budget? The focus here is on the project. Lessons learnt are fed back into the project management system. For example, if the project estimation was poor, then better methods of estimation might be integrated into the project management process to help ensure that future estimates are more accurate.
- A post-implementation review. This is essentially the Gateway review 5 and it examines what the project achieved (its product or outcome) and should compare the post-implementation observations and measurements with the hoped-for benefits that were the basis of the original business case. As part of this review, it will be important to gather information from key stakeholders. The initial focus here is on the product or outcome produced by the project. Does it meet its objectives? Lessons learnt are fed back into the product production process – for example, in the development of a website, technical mistakes might be fed back into the software development process to help ensure that they do not happen again in the future.
- Benefits realisation is a type of post-implementation review. It focuses on the realisation of the anticipated business benefits. As mentioned before, it could be performed several times, reflecting the expected benefits timing defined in the formal investment appraisal. A product might be successfully delivered (for example, a new website or the merger of two organisations); however, the anticipated business benefits may not be delivered. Lessons learnt in benefits realisation are fed back into the benefits management process. For example, this could lead to better ways of classifying benefits. It is important to recognise that an appropriate product might be delivered (a website), but the anticipated business benefits may never accrue. The reasons for this have to be investigated and understood. Perhaps the initial business case was over-optimistic or perhaps external business factors have changed that prevent the business benefits from being delivered.

Without these reviews, an organisation will be condemned to repeating any mistakes it may have made and will be unable to make use of any lessons learned.

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Reference

1 *Benefits Management: Delivering Value from IS and IT Investments*, John Ward and Elizabeth Daniel, Wiley, 2006.