Making e-Government Pay: Realising benefits from ICT

Paul Jackson, Adviser, CIPFA Performance Improvement Network

My last article in *PINpoint* (March 2009) looked at the rather negative topic of cost-overruns involving major government IT contracts. As the article pointed out, what is really depressing about such stories is how common they are – across countries and over time – despite the fact that many of the underlying causes of failure have been known about for years.

Is there a better way of dealing with such projects and problems, short of avoiding them altogether? Well, one approach might be to focus with a bit more zeal on the area of 'benefits realisation'. I have in mind not the pedestrian way in which benefits are traditionally treated in IT projects, but the more systematic approach advocated by the man John Suffolk (UK Government CIO) describes as the 'rottweiler of benefits management'.

I'm referring here to Stephen Jenner, IT project guru and author of the recent *Realising Benefits from Government ICT Investment – a fool's errand?* (published by API, 2009). Following the March issue of *PINpoint* I linked up with Stephen and asked him about his new book and how his ideas might address some of the ills discussed in my last article.

Blending theory and practice in benefits management

What's immediately striking about Stephen Jenner, especially once you've read his book, is his ability to blend experience at the sharp end of major ICT project management with what the literature has to say about the topic.

From 2006 to 2008 Stephen was Director of Criminal Justice IT, one of the largest IT enabled business change programmes in Europe. Around this time he also headed the Criminal Justice System IT Portfolio Unit, a £2 billion investment in modernising justice. Apart from writing books and talking to *PINpoint*, he now spends his time leading research into Portfolio and Benefits Management for the Cabinet Office as part of the Public Service Reform and Service Transformation agendas.

Addressing the flaws in current approaches

Of course, benefits realisation is something that's been taught and written about for some time, especially in an IT context. So I started by asking Stephen what gap his new book set out to fill.

As he noted, we've had report after report referring to the problem of benefits realisation falling short of forecasts. Books and guides have been published extolling the virtues of techniques such as Benefits Mapping and Benefits Realisation Planning and yet there's little evidence that things are getting better. The problem, says Stephen, is that the current approaches are fundamentally flawed for a number of reasons:

- Firstly, they fail to recognise that, in practice, benefits forecasts often represent little more than 'assumptions masquerading as facts' and consequently managing the realisation of those benefits is problematic;

- Secondly they are based on an acceptance of failure – with so called best practice being sold on the basis that if you adopt it then benefits realisation will rise to 80% of those planned – explicit recognition, as reported by KPMG, that "project success appears to equate to achieving an acceptable level of failure or minimizing lost benefits".

  There's no reason why this should be the case, says Stephen, if we switch the emphasis from optimism in planning and pessimism in implementation (evidenced by the "when can we stop tracking?" question), to realism in planning and optimism in implementation; and,

- The third flaw, he points out, is that current approaches manage benefits from a project or programme rather than an enterprise or portfolio basis. The issue here is that the project is usually finished and the staff are well gone before the benefits are actually realised.

For Stephen Jenner, therefore, we face three challenges in Benefits Management:

- Ensuring benefits claimed are robust and realisable;
- Planning for all potential forms of value created; and,
- Realising benefits and creating value.

Dealing with 'benefits fraud'

Why, I put to Stephen, are benefits still managed so haphazardly in most projects? The "real question," he suggests, is why is it that, if the rationale for projects and programmes is to realise benefits, they are so poorly articulated in business cases, and so few projects are able to demonstrate the realisation of those benefits in practice? His conclusion is "that it's because it's not perceived to be in anyone's interest."

Indeed, research shows that the benefits case is often deliberately overstated in order to obtain funding – and consequently it represents a form of "benefits fraud", as he puts it. Research by John Ward at Cranfield, for example, reports that 38% of respondents in one survey openly admitted to overstating benefits to get funding, with the traditional investment appraisal process being, "seen as a ritual that must be overcome before any project can begin".

Stephen also quotes Bent Flyvbjerg – now BT Professor and Chair of Major Programme Management at the Said Business School, who argues the result is "the planned, systematic, deliberate misstatement of costs and benefits to get projects approved."

Then once the project is completed, Stephen goes on, there's little demand for benefits management – the project team is disbanded and the SRO has probably moved on to another high ranking job. Spending resources on benefits management is then seen as at best an irrelevancy – if less benefits are found than forecast (the usual position because of the over-estimating in the first place) that invites criticism, and if you identify more benefits then you merely invite further cuts from the Finance Director.

Counting which benefits are eligible

One concept that is introduced in Stephen's new book is that of a "Benefits Eligibility Framework". The need for such a framework should resonate with accountants. As Stephen points out, when we estimate and manage costs we are guided by Financial Reporting Standards, GAAP, BVACOP, financial policies etc – and the finance people can then check that costings are consistent with these rules and guidance.

When it comes to benefits, Stephen suggests, too often, anything goes – and so we see inconsistent approaches to benefits quantification and valuation. The result, he notes, is that "we have no level playing field on which to appraise potential investments, no consistent means of determining comparative impact, and no reliable means for tracking benefits realisation."

A Benefits Eligibility Framework, which defines how benefits will be categorised, quantified and valued across the project portfolio, is, he says, therefore essential in ensuring benefits claimed are robust and realisable – our first challenge mentioned above.

Checking for bias in benefits forecasts

Building on the eligibility framework, I asked Stephen what steps can be taken to ensure that we are not overly optimistic about the benefits that are identified and described. His response was the following 5 recommendations:

- Be transparent about the benefits anticipated – going beyond claims of strategic alignment to Strategic Contribution Analysis and recognising that non-cashable staff time savings are NOT a benefit – the benefit is what you do with the time saved not the time saved itself.

- Have independent checks to ensure that business cases don't have 'assumptions masquerading as facts'. Stephen even argues for someone who is, as Shakespeare says in Twelfth Night, "wise enough to play the fool".

- Use data on similar projects to inform estimates – if the organisation always comes up short in realising benefits why should the current project be any different?

- Have a formal re-commitment to the benefits case at each stage or phase gate; and

- Book benefits in business plans, budgets, headcount targets and personal objectives.

Stephen Jenner, ICT project and benefits realisation guru

Time for a Value Management Office?

One idea discussed in Stephen's book is that of the Value Management Office function. What role does such a function play, I asked, and how would a small public body, such as a district council, put such an idea into effect?

He started by pointing out that many organisations have a Programme Management Office and/or Centre of Excellence charged with helping the organisation deliver its projects and programmes – a worthy goal, says Stephen, "but remember the rationale for such investments is to realise benefits."

So whilst delivery is important, benefits are the raison d'etre for investment. And here he quotes Professor Donald Marchand at IMD: "80% of the value comes from usage not deployment." Consequently the focus of attention needs to extend beyond the formal end of the project. Stephen therefore argues that we need someone to ask the following questions:

- Have project business cases identified all potential forms of benefit from an investment or do they stop at the hurdle rate of return? (This is the second benefits challenge referred to above);

- Given our accumulated investment in change, what benefits have we realised and what will we realise in the next planning period?; and,

- Is that the best we can do, or can we go further in driving out additional value? (which is our third benefits challenge, says Stephen).

Ultimately, he notes, the solution to this will be organisation-specific and will need to reflect the size of the organisation and the scale of the investment in change. But whether it is a formal unit or a virtual organisation, someone needs to focus on benefits realisation and value creation.

Politics, bias and big hairy projects

Towards the end of my discussion with Stephen I asked him about the issues raised in my previous *PINpoint* article, which highlighted the problems of large and complex projects that are always green-lighted despite costs over-runs and doubtful benefits.

He began by citing research that shows how even professionals can suffer from cognitive biases and that the 'planning fallacy' is too often a reality – i.e. we assume that our project will go to plan whilst recognising that most others won't. The result is, as Lovallo and the Nobel prize winning Daniel Kahneman say, "Delusional optimism: we overemphasise projects' potential benefits and underestimate likely costs, spinning success scenarios while ignoring the possibility of mistakes."

But the problem gets worse, says Stephen. Quoting author Ian Ayers, he notes "humans not only are prone to make biased predictions, we're also damnably overconfident about our predictions and slow to change them in the face of new evidence. In fact, these problems of bias and overconfidence become more severe the more complicated the prediction."

Stephen suggests that this helps explain the findings of a recent NAO report that, "There was a consensus among the non-Executive Directors in our workshops that reallocating resources occurs too infrequently. They asserted that while senior management in departments increasingly have access to the necessary information to make this kind of decision, action is often not taken."

To address such situations, Ayers argues for an "'Advocatus Diaboli'... whose job it is to poke holes in pet projects". This is similar, Stephen points out, to Davidson Frame, who proposes the use of "murder boards" to pull a proposal apart, to "make sure that arguments in support of project ideas do not have built into them the seeds of their own destruction."

As Stephen says, "I conclude that benefits realisation is indeed a fool's errand – but in the sense that we need someone like the medieval fool, who is able to objectively and independently challenge the assumptions that too often masquerade as facts."

Beyond that, he argues that we need to recognise that there will be occasions where the political imperatives mean that a project will proceed whatever the business case says. However, rather than expend effort in concocting a meaningless economic cost benefit appraisal to comply with Treasury requirements, the focus, says Stephen, should instead be on making the implicit assumptions underpinning the project explicit, i.e. "what performance improvement exactly do we anticipate, how will we know it's been achieved and how do we know we could not achieve the desired impact more cost-effectively?"

The future of benefits management

In conclusion I asked Stephen how he saw the future of benefits management, and whether he might hope to see the ideas, such as those espoused by him, becoming more mainstream in the near future.

He was upbeat about this, and believed that we are already seeing the beginnings of a change. He cited a recent survey for the Central Government Project Portfolio Management Special Interest Group, which found that "portfolio benefits management" was by far the area of greatest interest. The feedback he receives at conferences and seminars, he believes, also confirms that people recognise that the traditional approach doesn't work and that it's time for something new.

On a final point Stephen was keen to remind us of the fact that, when it comes to government projects, we are ultimately we are investing 'Other People's Money' (i.e. tax payers'). It's crucial, he says, that we make best use of the funds at our disposal and are able to demonstrate the value created.

For more information contact Paul on paul.jackson@cipfa.org.uk

Stephen is currently conducting a survey into approaches to benefits management in public sector organisations. All responses will be kept confidential, and everyone who participates will receive a copy of the guidebook *Managing the Portfolio, Realising the Benefits*. This outlines Stephen's approach to Portfolio and Benefits Management and won the CIPFA-sponsored 2007 Civil Service Financial Management award. The survey can be accessed via the PIN website, www.cipfa.org.uk/pin.

Realising Benefits from Government ICT Investment: A Fools Errand? is available in all good bookshops and online stores.