Monitoring benefits realization – show me the money?

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This is the third in a series of articles examining themes identified in 'Managing Benefits'[1] from APMG-International. Whilst covering relevant material from the Guide, these articles also seek to set the debate in a wider context – drawing on experience from practitioners and thinkers from related fields just as the 'Managing Benefits' guide itself draws on insights from a wide range of disciplines beyond project and programme management, including economics, behavioural finance, psychology, and systems thinking. In this case, Claire Dellar, Benefits Realization Manager at Norfolk & Suffolk NHS Foundation Trust.

This article explores the issue of how to combine assessments of financial and non-financial benefit realisation in a single measure of progress – using monetary values and normalized scales.

If you have experiences and examples you are able to share and are interested in contributing to a future article, please contact Steve Jenner via the address shown at the end of this article.

The challenge

Monitoring benefits realization is important for a number of reasons – for example:

- Addressing the "build it and they will come" assumption[2] i.e. the too common belief that capability automatically leads to benefits. The reality is that it often depends on management action that needs to be monitored to ensure that it occurs and has the intended effect.
- Providing a basis for corrective action when performance falls below what was anticipated, mitigating unforeseen dis-benefits, and leveraging emergent benefits.
- Understanding what is actually causing changes in performance and so addressing the issue of how to attribute performance changes to individual initiatives by tracking leading as well as lagging measures.
- Ensuring that by 'booking' cashable benefits we have not created an unfunded pressure.
- Validating the assumptions underpinning the organization's business model.
- Learning about what works, and feeding this back into the design and management of future change initiatives.

Most significantly, monitoring has a payback – a recent study of transformational change[3] has found that those,

> "who track the benefits of their programmes are significantly more successful at achieving their stated objectives".

But one issue regularly faced is how to report on benefits realization in a succinct form when different types of benefit (financial and non-financial, or a range of non-financials, for example) are due to be realized. We are not suggesting that individual benefits should not be managed, rather that combining measures helps communicate progress in a succinct and potentially powerful manner. This applies at the individual initiative level, and even more so at a portfolio-level, where senior managers often struggle to see the benefit 'wood' for the benefit 'trees'. I was recently asked whether I had any tips for an organization where the Board had asked for a benefits status report in the form of a single number. I was somewhat taken aback, but there may be a solution – read on!

Solution 1 – 'Show me the money'

One option is to assign a monetary value to all benefits, both financial and non-financial. This has some attractions:

- Assigning monetary values provides a consistent basis for measuring benefits realization across benefit types and all project and programmes.
- It's consistent with the approach adopted by many organizations to the cost-benefit appraisal in the business case – if we use monetary values to determine where to invest, it only seems consistent to continue to use these values in monitoring the realization of those benefits.
- Valuing benefits in monetary terms is consistent with much of the 'good practice' guidance, for example:

  - The APM Body of Knowledge (6th Edition)[4] definition of a benefit includes, *"It will normally have a tangible value, expressed in monetary terms that will justify the investment."*

  - Managing Successful Programmes®[5] suggests that benefits measurements should be stated in financial terms *"wherever possible".*

Valuing financial benefits in monetary terms is usually relatively straight-forward – although care needs to be taken in ensuring that claimed financial benefits will be 'cashed' (rather than being 'cashable') in terms of increased revenue or reduced cost. Techniques of relevance here include applying a conversion ratio, to reflect the fact that not all staff time savings can always be redeployed to value adding activity; and 'booking' the benefits in budgets, headcounts and unit costs.

If valuing financial benefits in monetary terms is usually relatively straight-forward, this is not the case with non-financial benefits, although monetary valuations can be elicited by determining end-users' or customers' 'willingness to pay' or 'willingness to accept' the outcomes of an initiative. Techniques available include:

- Revealed preferences – where values are inferred from observed behaviour in a similar or related situation.
- Stated preferences – here questionnaires are used to ascertain estimates of willingness to pay or accept via contingent valuation (where estimates are derived from direct questions) or choice modelling (where estimates are based on selecting a preferred option from a range of alternatives).

The use of such econometric measurement techniques are, however, not without issue. For example, where people are not aware of the benefits, it is difficult for them to say how much they would be willing to pay to receive them, and what people say they would do does not always accurately reflect what they actually do in practice. Estimates are also not always logically consistent – for example Kahneman[6] quotes the following example. After the Exxon Valdez oil disaster people were asked how much they would pay for nets to protect migratory birds from an oil spill. Different groups were asked to say how much they would be willing to pay to protect 2,000, 20,000 and 200,000 birds. If saving birds is an economic good one would expect some logical relationship between the amount people were willing to pay and the number of birds protected – but the average amount each group were willing to pay was US$80, US$78 and US$88 respectively.

'Anchoring' can also affect estimates made. People in a similar study to the one above were asked how much they would be willing to pay annually to help protect seabirds from oil spills. Some were first asked 'would you be willing to pay $5', before being asked how much they would be willing to pay. Others were first asked whether they would be willing to pay $400, and a final group were just asked how much they would be willing to pay. The results – those with the $5 'anchor' said they would pay $20 on average. When no 'anchor' question was asked, the average was $64 and when the $400 'anchor' was used, the average was $143.

Dan Ariely[7] cites an example that questions the assumptions underpinning standard valuations applied to value user time savings - Tversky and Kahneman posed the question: you are going to buy a pen and find it costs $25, but then learn it's on sale for $18 fifteen minutes away - do you travel to save the $7? Most said they would indicating a 'value' of their time of at least $28 per hour. Tversky and Kahneman then posed a different question – you are in the process of buying a suit for $455 and then find out it's on sale at $448 once again, at a store fifteen minutes away. Do you travel to save the $7? This time most said they wouldn't which suggests that the value of time is actually relative not just to the individual but also to what they are doing at the time.

So whilst valuing benefits in monetary terms has its advantages, it also has its issues - not least in the tendency to confuse the resulting monetary value with the underlying benefit, and the reliability of the resulting values obtained. But is there an alternative? Well as it happens, yes there is.

Solution 2 - Reporting on a normalized scale

All too often, project and programme managers - and the organisations they work for - focus solely on the financial benefits of their change programmes.

"Non-financials are too soft, too wishy-washy" they say, "How am I supposed to value a project without financials?"

David Elliott of PBM Consulting suggests using a 'normalized scale' to compare benefits. This approach applies a points rating system by which a value of 1 is assigned if the actual value matches plan – with values of > 1 where realization exceeds plan and < 1 where it is below plan, and with the values proportionate to the level of realization (for example, if realization is half that planned, a value of .5 would be recorded). To analyse, for example, the effect of a change project to improve patient safety in a hospital, we might identify several measures. These could include things like MRSA infections, falls or drug errors. David's normalised scale assigns each of them a 'point' each time they are measured. Add these up over time and you get, say, 15/20 for MRSA, 8/5 for falls, 11/11 for drug errors. This is really useful, because it takes three different types of measure (MRSA infections as a proportion of admissions, falls as a proportion of bed days and drug errors as a proportion of drugs administered) and converts them into something easily understood and compared - with each other and across a programme or portfolio.

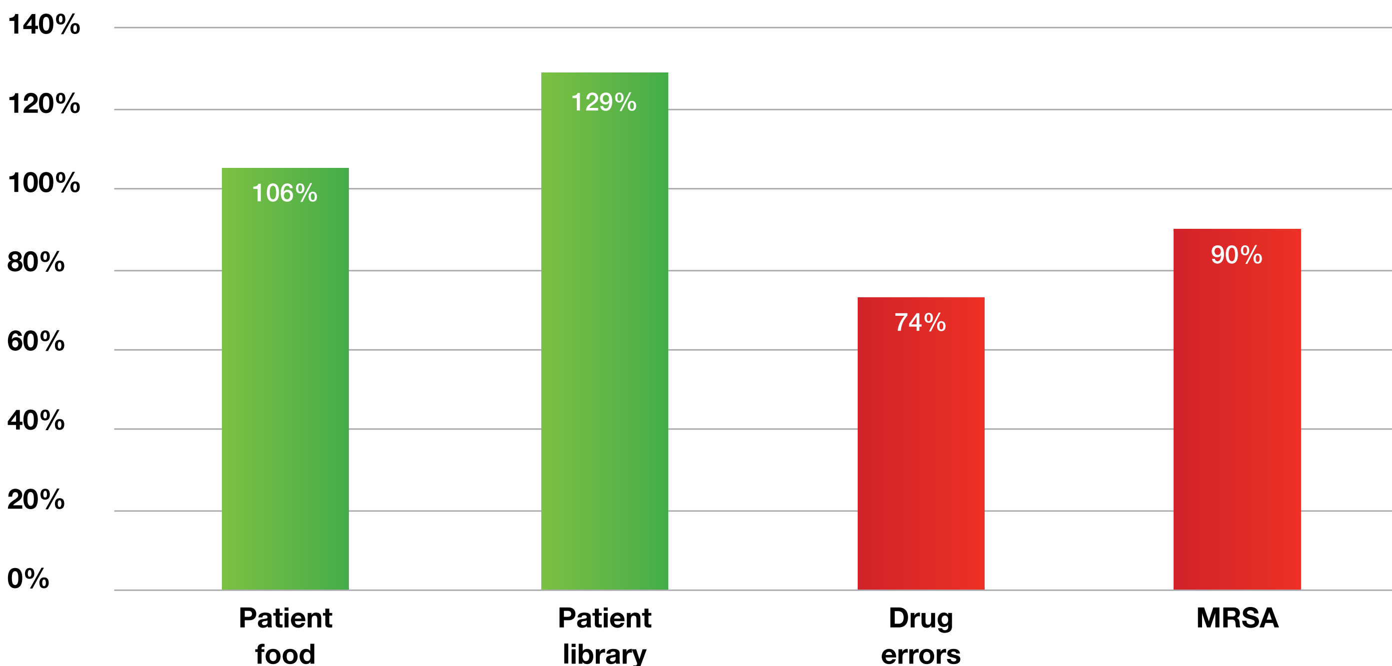
In many organisations (especially those new to benefits realisation) this is sufficient, or at least as much as people are ready to deal with. The statisticians amongst you have probably spotted some of the pitfalls of this approach, including: it is weighted towards benefits which are measured more frequently; and a complication arises where benefits are realized ahead of schedule – since the planned value is 0, the actual value can't be converted to a points rating. One way round this is to use a proportion of the next planned points value which is greater than zero.

Up until this point we have also not taken account of the relative importance of each benefit. Claire Dellar has addressed this by building on the original concept to create a weighted score which can be aggregated into an overall performance measure at programme and even at portfolio level. Here's a (made up) example of benefits from projects within a hospital's QIPP (Quality, Innovation, Productivity and Prevention) programme. Here's how the position looks when we get the cumulative (total to date) performance for four benefits.

PROJECT	BENEFIT	MEASURE	TARGET	ACTUAL
Patient Experience Improvement	Greater patient satisfaction with the food provided	Survey – scored Very Good/ Excellent	52	55
Patient Experience Improvement	Greater patient satisfaction with the library facilities	Survey – scored Very Good/ Excellent	62	80
Electronic Prescribing	Fewer Drug errors	Incident reports per week	14	19
Infection Control Campaign	Reduced MRSA incidents	Incident reports per week	9	10

The project and/or programme board are likely to be interested in performance for each of these benefits, so let's convert them to percentages and draw a graph:

ProgrammeBenefits- Realisation Levels



OK, so now we have some benefits to compare, but if we consolidated them they would add up to c100% because over achievement in the Patient Experience Project is cancelling out the effect of the lack of progress in the other two. What would be more meaningful would be an assessment that takes account of the relative importance of each benefit. This is achieved by applying weightings to each benefit:

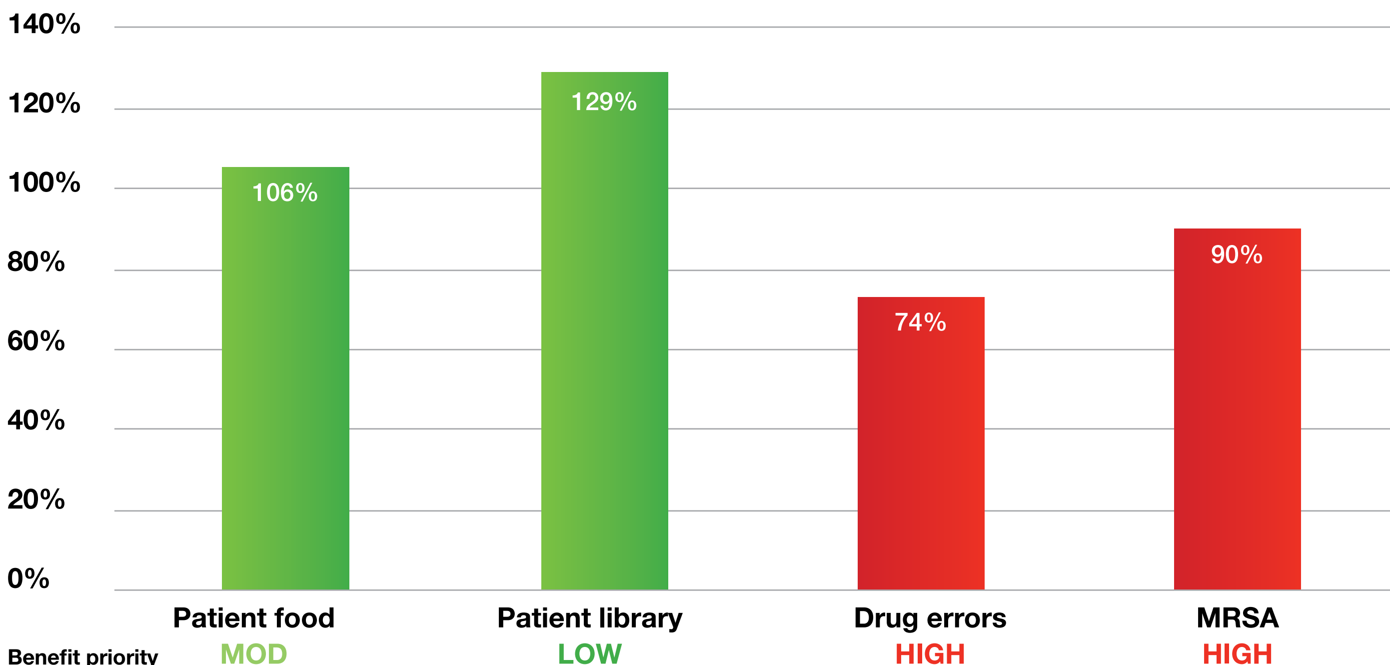
Programme weighted average =
sum (performance x multiplier) / sum multipliers

In this example, reducing Drug Errors and MRSA incidents are regarded as a high priority and are therefore assigned a weighting of 3; improvements to patient food is medium priority with a weighting of 2; and improvements to the library are rated as low priority with a consequent weighting of 1. Overall, we get a benefits realisation score of 92% effectiveness for this programme. To round off, here's an example report for a programme board or committee.

Quality Improvement Programme

Programme Manager	Sponsor	Report Period	Report Date	Distribution
James Jordan	Kate Tennant	August 2012	13/09/2012	Programme Board, Investment Committee, Board of Directors

Realisation Levels



92%
overall* programme performance

* Average of scores when weighting applied accordingly to priority

Commentary

Drug errors: delayed rollout in A&E → sytstem had smaller impact on errors

MRSA: outbreak in Ward 5, deep clean initiated all staff repeated IC training

This approach allows us to assess progress on financial and non-financial benefits realization on a common scale, without facing the issues associated with valuing non-financial benefits in monetary terms. The approach can also be combined with benefits mapping – each investment objective is assigned a percentage importance rating that adds up to 100%, and similarly, each benefit is assigned a percentage for its contribution to each investment objective.

It also allows for incorporation of the costs of change in the overall picture, by including under or over-spend against budget as a performance measure, contributing positively or negatively (though one should be careful to ensure under-spends are because the budget was no longer required in order to realise the benefits, not that the money has not been spent and the benefit not been realised).

Either way, this approach enables benefits to be reported on a common scale, the overall position to be consolidated, and reported in graphical as well as tabular format. This can be taken a step further in analysing benefits realisation performance by each benefit category and even for the portfolio as a whole – so addressing my colleague's challenge of expressing overall benefits realisation in a single number.

Conclusions

Ultimately it does not have to be a choice between monetary values and normalized scales – both can be used to provide enhanced insight by viewing benefits realization through more than one value lens.

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References

1 Jenner, S (2012) Managing Benefits, TSO. This guide also provides the basis for accredited examinations from APMG-International – see: http://www.apmg-international.com/home/Qualifications/ManagingBenefitsQuals.aspx.

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