Measure value to deliver value
Why are projects approved?

There may be a hundred different answers to that question, but fundamentally it all comes down to one thing – projects are approved in the expectation they will deliver a return on investment. Often that’s a financial return, but it may be risk reduction or regulatory compliance, customer and employee satisfaction, or any number of other metrics that the business considers important. Regardless of the specifics, every project is approved in the expectation it will generate value for the business.

So, why don’t businesses then measure that value? It’s certainly not because they are confident value is consistently being delivered. PMI reported this year that 11.4% of all project investments are wasted, a number that hasn’t improved over the last decade. Yet as soon as the project is approved, all of the metrics and management focus turns to project mechanics. Performance against schedule is tracked— even though that schedule was developed early in the process and is little more than guesswork. Budget is tracked, whether that’s money or people, and there is confirmation that all of the scope elements are being delivered. Sure, there is a relationship between those factors and the attainment of value – if you don’t do the work you can’t get the value. However, that relationship is tenuous at best.

Many projects that delivered on time, on scope and on budget failed miserably at delivering any semblance of business value. Sometimes that’s because the work became misaligned with the business need, sometimes it’s because of flawed expectations and assumptions. Whatever the cause, businesses can’t wait until after the project is finished to learn they didn’t get a return on investment. Businesses need relevant metrics to monitor and manage project value from the outset. But how do they do that?
Creating Accountability

The first step is to create accountability at the outset. When a proposal or business case is prepared for an initiative, outlining the expected costs and benefits, the owner must be held accountable for both sides of the ledger for project approval. Revenue forecasts must be ‘baked in’ to future targets, cost reductions must be reflected in future period operating budgets, etc. This will inevitably result in more conservative benefit forecasts, but those numbers will better reflect the reality.

Not all benefits can easily be measured (at least not until several reporting periods after project completion). Businesses cannot invest in projects in the hope they will deliver results several years in the future. Instead, they must identify effective proxies which must be detailed in the business case to drive accountability for the owner of the project’s outputs. For example, these proxies may include market share, acquisition rates, and customer churn on the revenue side and outages, error rates, processing times and similar events on the cost side.

Once those benefit expectations and measurement criteria are defined and the project is approved, the ability of a project to achieve those value metrics must be monitored and managed. That requires a paradigm shift in project reporting.
Measuring, and managing, value

To effectively manage value-based metrics, the business must understand the variables that impact the ability to achieve that value. That’s where an effective, business aligned PMO comes in – it’s the function that owns accountability for monitoring value and driving adjustments when metrics become misaligned with business needs. While some variables are unique to the specific project being delivered, a surprising number are common and measurable across the entire project portfolio.

Benefit forecasts are developed by experts in the business areas that need them (product managers know their markets and customer bases, operational leaders understand the internal processes and workflows that drive consistent delivery, etc). Their forecasts for expected benefits are informed by their expertise and based on an expectation of a project’s outputs being delivered within a known time horizon. That drives our first value metric.
Time-to-solution

Measure time-to-solution from the point where an opportunity or threat is identified to the point where the project's outputs are delivered to the owner. This ensures any delays in gaining approval and scheduling work are captured, which all impacts the likelihood that benefits will be achieved. Businesses should be looking to reduce this time window over time, but in the short-term the focus should be on consistent delivery.

If complete elimination of the variance in delivery cycle is possible, then the confidence in benefit forecasts increases significantly. This is due to the almost total elimination of uncertainty of product availability and value delivery. This is an area the PMO must manage and control aggressively, including pushing for more timely approvals and resourcing as needed. It is also one of the simplest metrics to measure, requiring no complex methods, only accurate capturing of the start of the process.

Benefit forecasts are based on the understanding of the business environment as it exists when the threat or opportunity is identified. That same expertise that allows business leaders to develop their initial estimates also allows them to identify when factors shift (impacting the ability for those benefits to be achieved). Whether those changes are driven by market conditions, emerging technology or business priorities, the ability to adapt and adjust to evolving business needs and conditions is a critical value metric.
Alignment management

Alignment management is a series of metrics aimed at assessing the speed with which changes in alignment have occurred and the ability to adjust quickly and without disruption. Some of these are easy for a PMO to measure based on internal project effectiveness and efficiency metrics, like the impact of changes for example. Integrated project portfolio management (PPM) platforms can measure others, like the financial and opportunity costs of adjustments (and delays), the impact of the need to change on portfolio performance, etc.

This category must also consider subjective metrics around the performance of business areas to identify, analyze and prioritize changes in operating environments, along with the impact of those shifts on current initiatives. This is an area where PMOs must demonstrate their expertise in business management, guiding and coaching organizational areas to more effectively oversee project investments.

The final category of integral value metrics to consider is the simplest to understand: the actual measurement of performance after project delivery. Performance measurement post-delivery is also the responsibility of PMO. Even though the specific project responsible for delivering the value being measured is complete, the PMO must address any variances between actual and expected value in the portfolio.
Value measurement

Different value criteria require different measurement approaches. The way that value is measured needs to align with the way that the metric or its proxy is determined in the business case. In some cases, a simple general ledger code is all that is required. In others, value is determined by the direct measurement of proxies. In many cases however, indirect or subjective measurement is needed. Employee or customer surveys, assessment by internal or external experts, or any other defined and approved approach are all perfectly acceptable. What’s important is that this measurement actually happens.
Conclusions

Projects are never approved out of a desire to deliver a specific set of features by a certain date and for a known cost – they are approved to deliver an improvement to how a business operates. The number of businesses that ignore that fact until after project completion, or worse, never consider value, is truly shocking. Instead, these businesses focus on vanity metrics around tactical project delivery performance that do nothing to validate that a return on the investment is achieved.

In the PMI Pulse of the Profession report referenced above, high performing organizations still failed to meet their business goals 23% of the time. For low performing organizations it was 44%. Unless businesses immediately realign their project delivery metrics to focus on business outcomes, they will simply develop more efficient and effective ways to execute the wrong work to achieve the wrong goals. And that’s just as certain a path to failure as not measuring performance at all.
Get more insights on aligning business to outcomes, organizational agility and how ITBM Professional can help you realize them:

Discover the evolution of the business focused PMO and how you can optimize return on business investment

Learn how to Turbocharge your PMO to increase business value, improve reliability, and accelerate delivery

Read about Enterprise Agility and how to reinvent your business for today (and tomorrow’s) world

Learn more about how ITBM can help you deliver enterprise agility for better business value