Value Realisation

Benefits Tracking Process

Executive Summary

- After launching a new venture, a new product or service, a change management programme, etc., many organisations fail to track the costs and benefits to understand performance against the original objectives
- A benefits tracking process will help management measure success in terms of financial benefits, but also through non-financial measures
- The benefits tracking process is an integral part of the implementation plan
- The data required must be identified and process designers must ensure that the data is obtainable and measurable on a regular basis
- Data is used to produce KPIs, both financial and non-financial, which will be exhibited and explained in management reports
- Leading indicators will aid in identifying potential opportunities and issue, and planning to exploit opportunities and to mitigate threats
- It is important to establish robust baselines, which can be referenced to track the actual variance of a project
- Reports are produced to aid management decision making, which can be as wide-sweeping as stopping or expanding a project, or as nuanced as changing an incentives package
- A benefits tracking process is not just about reporting on the efficacy of a project, but also helps to foster a learning organisation which is more efficient, better at producing meaningful data and has empowered employees

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1. Introduction

Projects are stared with specific benefits in mind

When a new project or new venture[1] is started, there are intended benefits. Generally these benefits are measured based on objective metrics such as financial rewards or profits, or cost savings. Occasionally project benefits have a more subjective pursuit such as social impact. Whatever the intended benefit, there should be a motivation for a project to be implemented.

Many organisations do not measure the intended benefits once a project is implemented

When companies, entrepreneurs and public enterprises design a project, they spend time up front to determine the costs and benefits and prepare a business plan which outlines timelines, costs and benefits. In theory, if the benefits outweigh the costs by more than alternative projects, the project in question should go ahead. However, once the project is underway many organisations and individuals do not track costs and benefits against the business plans put forward at the outset.

Benefits tracking can help determine the success of a project and provide lessons for the future

This report looks at how benefits tracking can help determine if a particular project is successful, and what lessons can be learnt from the project outcome. Also, we show how carrying out benefits tracking can help improve overall reporting within an organisation.

This report is aimed at managers who want to improve monitoring their business performance, investment specialists who want to ensure their investments achieve target profitability rates and owners who want to ensure that they are receiving the benefits promised to them by their business managers, bankers and investment specialists.

[1] From this point on, all projects, new ventures, new products or services, etc. will be referred to as projects.

2. The Basics of Benefits Tracking

Benefits tracking helps to determine the achieved financial and other benefits

Benefits tracking is the process of tracking both the costs and predefined benefits of a project to see how well it performed against the business plans that were developed at the outset of the project. The predefined benefits are oftentimes financial, but they can also be non-financial such as customer based, efficiency based, knowledge based, etc.

Key Performance Indicators

Obtainable and measurable KPIs can be stand alone or part of a larger tool

It is important to choose the right performance measures, or Key Performance Indicators (KPIs). KPIs can be standalone or part of a more holistic tool such as a Balance Scorecard. Holistic tools are particularly important when trying to avoid assessing employees purely on narrow measures, which sometimes leads to ignoring more intangible benefits. Importantly, KPIs will require data that is obtainable and measureable. KPIs should not only be historical data; in addition leading indicators can help to steer projects.

Creative thinking is required to determine KPIs for more difficult to define aspects of a business

Some KPIs are thought to be harder to measure or difficult to define in terms of how they affect the bottom line; examples are customer satisfaction, the impact of marketing spend, or employee satisfaction. We would disagree. Without a clear linkage to the profitability of a business (if it is a for-profit business), there is little reason to carry out the project. Customer satisfaction should lead to higher revenues through greater cross-selling, more repeat business or new customers from word-of-mouth; marketing spend should lead to greater brand awareness, which should in turn lead to new customers and greater sales; and employee satisfaction should lead to less churn and greater productivity, which should reduce cost per dollar of revenue.

Once KPIs are defined, they can be a supportive management tool throughout the lifecycle of a project:

- Measure the benefits of a project against a baseline
- Define and measure the success of management
- Set targets for all employees involved in a project
- Learn lessons from deviating projects, both negative and positive

KPIs can change over time, as a project evolves

In a multi-stage project, which has a number of stage gates, a benefits tracking process can help to inform the decisions management will have to make. Each stage may require its own set of KPIs.

Budgets

Financial benefits eventually are tracked through annual budgets

Financial benefits defined in a business plan will eventually become part of an overall organisational budget. In large organisations, small projects can sometimes be ignored in budget aggregation. However, budgets are usually produced bottom-up. Therefore the benefits defined in any business plan should still be traceable through its budget.

Successful projects may be expanded more rapidly than anticipated or altered to take into account other factors. Budgets will therefore be enlarged and, in these cases, new KPIs may be introduced.

It is important to establish a baseline

Budgets need to have a defined baseline, against which actual results can be compared. It is sometimes necessary to reset the budget due to new market conditions, new information, or more realistic scenarios. It is tempting at this point to redefine the baseline. However, we would suggest keeping the baseline, creating a variance against the baseline that determines an adjusted budget against which actual results are compared. This sets an important precedent, as participants can see if their business plans are on average too conservative, too aggressive or fairly accurate. As an example, let us consider a school that will ramp up over time to take 500 students. In the business case, an assumption may be made that 1 teacher is required per 20 students with a buffer of 10% to cope with sickness, holidays, etc. Therefore, 28 full time teachers are required (rounding up). If we assume the average teacher is paid AED 12,000 per month, the business case would have a monthly teacher salary budget of AED 336,000. This would form the baseline. If, after implementing the business plan, we realised that 1 teacher is required per 25 students, but teachers actually cost AED 14,000 per month, the monthly budget is actually AED 308,000. An adjusted budget can then be formed based on AED 308,000 per month, and the school management will be measured in their performance against this number. However, we also have the important information that our original business plan was too conservative by AED 28,000 per month. Segregating the various components of variations against the baseline is important when determining performance measures, incentives, and future baselines.

Baselines can be altered, but do not lose the original baseline information

<u>Risks and Issues</u>

Future planning is just as much a part of benefits tracking as reporting. In order for a project to succeed, management must deal with current issues and anticipate risks that lie ahead. Key to this process is to develop and continuously update a risk register and issues log, and for management to make decisions when required on their content.

Issues are current problems that must be dealt with through an orderly plan

Issues are problems that are currently inhibiting a project from reaching its maximum potential. Some issues are minor and may not cause too much grievance. Others are more problematic, or may become more problematic, in which case management must determine if a cost effective plan can be put in place to deal with the issue. If it is not cost effective to deal with the issue an orderly closing of the project may be the best option.

Common issues include misspecification of or vague requirements, slow communication due to people having too many responsibilities leading to bottlenecks, not enough management support, poorly specified processes and procedures, little financial oversight, poor management information, etc. There are a number of other issues which can be mentioned, but many of them lead to one of a few things: delays, budget overruns or revenue shortfalls. Once an issue is identified, it should be clearly defined, as different people may have conflicting views on what the issue is. Causes should then be identified, which many people confuse as being the same thing as defining an issue. What the issue is and what is causing the issue are linked, but not the same thing. Once the causes are identified, a clear plan should be put in place to resolve the issue. Specific employees should be accountable for ensuring the plan is implemented.

Risks are potential future problems, which can be mitigated or their impact managed through a planned approach

Risks are problems that may happen in the future and can be evaluated by an assessment of their likelihood and impact on a project. Risk assessment should be overseen by experienced personnel within the organisation. Leading indicator KPIs are helpful to identify risks.

Common risks include potential regulatory changes, buyer preference changes, new competition, key man risks, etc. Risks can also lead to delays, budget overruns, or revenue shortfalls. As risks are potential future issues, they do not have the same urgency for resolution; however, they need to be managed as some risks can have a high impact. Risks can be mitigated if strategies are put in place to reduce their probability of occurrence or to manage their negative impact.

3. Setting Up a Benefits Tracking Process

There are usually two phases to a change: implementing the change, and business-as-usual after changes are implemented

When a change is proposed, whether in an existing business to improve efficiency or increase revenues, or in a new business start-up, the process usually follows two broad steps.

- The first is the 'project' phase where the change that is proposed is designed, analysed and implemented. During the project phase, project staff required includes project managers, and people who are able to deal with ambiguity.
- The second is the 'business as usual' phase, where the implemented change becomes part of standard operating procedures. During the business as usual phase, line-staff are required to carry out the day-to-day operations of the business.

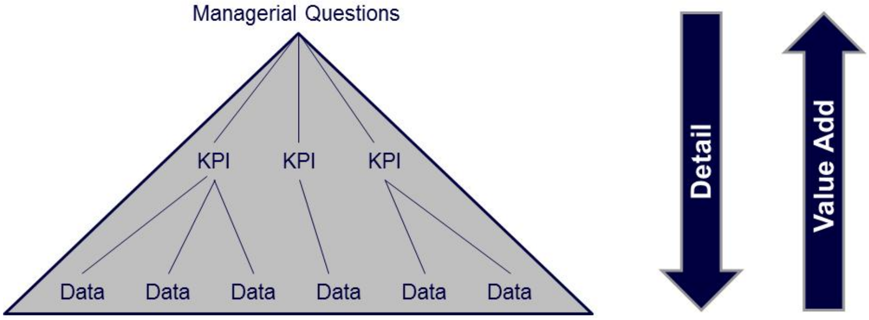
Designing a benefits tracking process begins at the point any change is designed and implemented

The benefits tracking process must be designed as an integral part of the project phase. It should not be an afterthought, as this can lead to problems in collating data, understanding reporting lines and determining true baselines. Without proper planning, at best the benefits tracking process will be confusing, and at worst the process will be circumvented and results manipulated.

Determining KPIs is a process in itself, which is shaped by the questions management want answered

The first step is to determine the KPIs that are to be measured. In order to define KPIs, managers must first think of the questions they are looking to answer, which should be intrinsically linked to the reasons for carrying out the change. If the change is linked to efficiency of the back office, cost reduction will be important, but questions about productivity, staff churn and utilisation rates will arise. If the change is a new business start-up, there will be a host of financial performance questions with a focus on revenues, which later migrate to profitability. Also, a number of industry specific questions will need to be answered to ensure the business is capturing the market share that is expected.

Topology of Data Selection Process

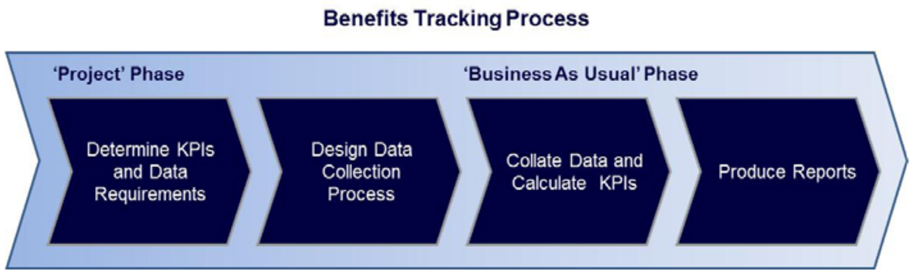


Source: Isthmus Partners

KPIs that answer managers' questions should be informative and provide some form of link to the financial bottom line. Answering financial questions should not be difficult, as most of those KPIs will be related to accounting numbers that are routinely captured. Also, technical questions are likely to find more precise KPIs. However, more market based, or perception based questions will require more creative KPIs.

KPIs can only be determined if the data that supports them is available

Once the KPIs have been determined, the easy part is done. The hard part is to ensure the data is available to measure the KPIs during the business as usual phase. The more creative the KPI, the more difficult it will be obtain the requisite data. So there is a balance between answering management's questions and the cost of data gathering. There may be some level of iteration between determining KPIs and understanding the ability to collate data to measure those KPIs.



Source: Isthmus Partners

Data collation, management and accountability are important cornerstones of a benefits tracking process

When determining the data collation method certain questions must be answered. Where will the data be obtained from? Who will collect the data and how and how often will it be collected? Who is the owner of the data, and who is the owner of the benefits tracking process?

Benefits tracking process designers have to be realistic about the data that is available. For instance, in certain emerging markets it may not be possible to obtain accurate data on market share within an industry, so if the KPI relates to market share capture, designers may have to become creative with the data that is available. Some inferences may have to be made, which obviously raises certain assumptions which management will have to become comfortable with.

This process may incur real costs, which have to be considered part of the project costs

Some data may incur certain costs. For instance, customer satisfaction can be measured through surveys, but carrying out surveys costs money. A budget may have to be set aside, which will have to take into account how detailed the surveys are, how often they are carried out, how they are carried out, etc.

Senior management must support the benefits tracking process if it is to be successful

The person who collects the information may be an analyst, but they must have the support of senior management to ensure data is provided by managers in different departments. Managers may feel they are being audited, which can lead to resistance. A lowly employee who has the task of data collation but no support will find it very difficult to produce the requisite reports.

Roles and responsibilities matrices ensure all participants know their duties

If the owners of the benefits tracking process and the data are different, an accountability matrix should be designed. It is important to keep in perspective that the benefits tracking process is only a reporting tool, and it is the business units that are accountable for performance. However, the benefits tracking process manager is accountable for accuracy of the reports and the timeliness of reporting.

Example Simple Accountability Matrix

	Data Maintenance	Data Collation	Data Analysis	Report Production
Benefits Tracking Team				
Manager	I	A	A	A
Analyst 1	I	R		
Analyst 2	I		R	R
Division 1				
Manager	A	C	C	I
Analyst 1	R	R		
Analyst 2		R		
Division 2				
Manager	A	C	C	I
Analyst 1	R			
Analyst 2		R		

A – Accountable for the task, buck stops with this person
R – Responsible for carrying out the work
C – Consulted on the work
I – Informed about the work

Source: Isthmus Partners

Benefits tracking processes help with the general efficiency of an organisation, and is not just a reporting mechanism

Setting up a benefits tracking process provides an organisation with more than a reporting process that improves reporting and data collection standards. The procedures put in place provide a platform to ensure greater efficiency through accountability. Employees are more likely to follow up on their own tasks if there is someone monitoring them, and can be incentivised to do better when there are metrics in place to monitor them. Isthmus Partners has found that the very act of running a project on a client site, where financial data is reviewed and processes evaluated causes the client's employees to be more motivated and empowered.

4. Reporting and Actions

At the end of each period, management must see the fruits of a benefits tracking process through a report. Report design will be carried out during the project phase and rely heavily on the KPIs that have been selected. Key stakeholders would be involved in selecting KPIs and will agree the format of the report and scrutinize the report once it is operational.

Reports vary and can be customised during the process

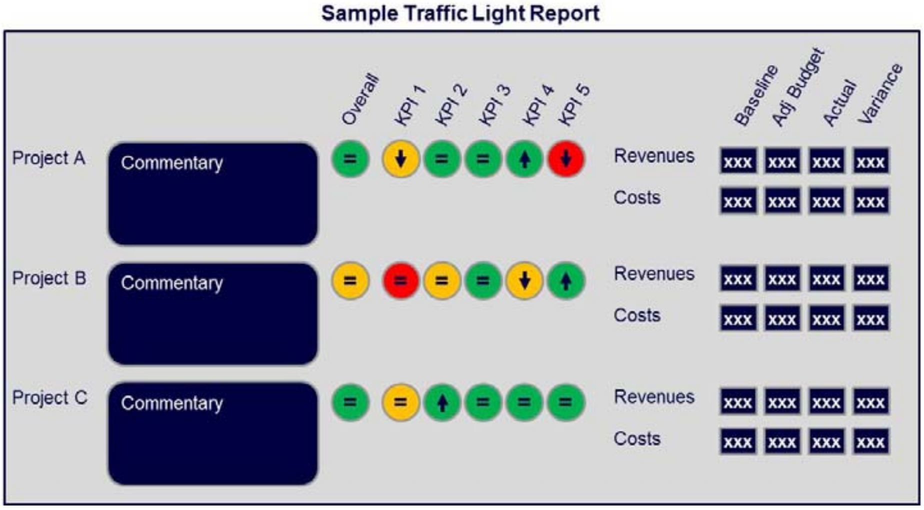
Reports can take on various formats dependent on whether they convey progress on a business line or on an on-going project, are predominantly based on financial information or a more eclectic set of measures, are more or less detailed, etc.

The top level report must be simple, so important details are relayed relatively quickly to senior management

The purpose of a report is to take all the disparate sets of data, which determine the KPIs and report in a simple manner. The results of the KPIs will be recorded, but some managers would also like to see some of the supporting evidence. A good report finds ways to break down the detail into manageable chunks of information. For instance, if there is a variation against budget, managers would want to see how that variation has come about. It may be there are five or six components to a variation, so it would be good to show the amount of the variation caused by each component, and a brief explanation of reasons why each component arose, and how future variations will be avoided. This example also demonstrates the need to have procedures in place that allow the benefits trackers to collate data that would allow them to carry out the variation analysis.

A report of any note is likely to be more than one page. The summary page of any report should be very visual, with high level numbers and very little text. Traffic light reports can be popular if the colours are well defined and understood by all report recipients. A movement indicator from a previous report would also be helpful to see any trends occurring.

Sample Traffic Light Report



Source: Isthmus Partners

Details are important to have if management want to drill down

Subsequent pages should provide detail. If all is going well, detailed pages may not be referred to by senior management, but as mentioned above, the benefits tracking process in itself will help to ensure profitability and productivity remain high, so it cannot be seen as a redundant exercise.

Actions

A benefits tracking process is there to help management make decisions

Management receive reports for a reason: so they can assess the current situation and make decisions. We have noted in previous reports how managers sometimes are reluctant to be proactive. Frequently, managers point to a lack of clear information upon which to make decisions. Though decisions can never be made on perfect information, a benefits tracking process with well-defined information collation procedures will provide managers with improved information and avoid stalling decision making.

There are various decisions that a benefits tracking process can help with. First, if a project has many phases, entering into a new phase should be governed by a stage gate at which point a ‘go’ or ‘no-go’ decision must be made. With a benefits tracking process, managers will be in a better position to make that decision as information would have been collated from the beginning. Too often, managers get to a stage gate and then scramble to collate data to support their case to move forward. Important information can be missed, trends are lost, and decisions are based on less than perfect data.

Leading indicators can help identify problems or opportunities in the future

Second, a benefits tracking process usually consists of a certain number of leading indicators. These can provide vital information for managers to take early decisions to avoid or mitigate risks that may be imminent.

Leading indicators can be applied to specific areas of the business. For instance, if staff productivity is a particular problem, a lagging indicator could be staff turnover numbers. If employees leave, training provided is lost and the company is usually left with too few experienced staff. A leading indicator may be employee satisfaction reports. Employee satisfaction report help identify key areas in which improvements could be made to stem employee churn. The same can be applied to falling sales and customer satisfaction surveys. Financial ratios and relative cost analysis can help identify problem cost areas before they arise.

A benefits tracking process will help management steer the course an organisation takes through more nuanced decisions

Third, managers require information to make small changes that steer the course of an organisation. Reports should provide the information required, not only to provide comfort to managers pertaining to progress, but also to allow them to make small corrective decisions, or provide enough leeway to enable them to change incentive structures, offer rewards, put certain parts of the organisation under watch, etc.

Finally, if issues arise, managers will have better information to rectify those issues. The process will then allow managers to monitor the rectification actions taken.

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Isthmus Partners is a UAE based boutique that offers consultancy advice in the corporate SME and real estate sectors. It is owned by two partners with a wealth of principal finance and consulting experience from 25+ years in investment banking and management consulting. For corporates, Isthmus Partners advises its clients on financial strategy, business development, restructuring and growth. The partners have worked on a number of new venture proposals. Isthmus Partners also works with a number of institutional funds to provide advice on their portfolio or target companies.

In the real estate sector, Isthmus Partners advises management on the financial strategy of real estate developments, from feasibility studies to late stage projects. The partners have worked on restructuring real estate developments.

Isthmus Partners' services include investment project health checks through financial due diligence, feasibility studies, monitoring of on-going projects to ensure greater control through cash flow monitoring models, and advice on business and financial strategies.

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