Aligning Projects to Strategy using Balanced Scorecards and Benefits Models

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This paper was presented at the 3rd International Conference on Project Management
on 29 September 2006, in Sydney, Australia

Abstract

A benefits-focussed process of step-wise refinement from strategic objectives through Benefits Models to implementation via projects can be achieved by integrating the Balanced Scorecard approach with the Benefits Model component of the Managing Successful Programmes (MSP) method. This will increase the effectiveness of the strategic project portfolio and improve the confidence of business sponsors that their investment in projects will return benefits that they perceive to be of value. Replacing Strategy Maps with Benefits Models means that a single tool is used to bridge the gap between strategy definition and implementation planning. Benefits Models can be encoded with the four perspectives of the Balanced Scorecard approach to ensure that benefits and initiatives are balanced across the perspectives.

Difficulties in Effectively Implementing Strategy

An increasing number of organisations are using the Balanced Scorecard (BSC) approach to communicate their strategic objectives to stakeholders. They also use the approach to identify enabling activities and associated success measures and targets. At the same time, several initiatives of the project management profession, such as PMI's PMBoK and OGC's PRINCE2, are contributing to ongoing improvements in project completion rates and the efficiency with which projects are delivered. However, methods operating at the strategic level cannot ensure that enabling initiatives are implementable, and methods operating at project level cannot ensure that projects are aligned with organisational strategy and will effectively deliver value. Moreover, the business sponsors of projects generally judge project success by measures other than the delivery of a quality product within schedule and budgetary constraints. In research by Lynn Crawford and others (6), it was found that the key concerns of executives include improved governance of the project portfolio and the ability to deliver value through change, i.e. a robust value delivery system.

As resources are finite, most organisations have instituted some form of capital rationing technique, or some form of project selection and prioritisation scheme. In general, these approaches attempt to evaluate and rank all project proposals against the same criteria – cost/benefit, strategic alignment, portfolio balance, risk, and so on. These criteria are used to ensure that the organisation as a whole achieves the maximum possible return on investment of its resources. Sectoral interest groups within these organisations compete for the available capital, or for scarce human and other resources. To achieve their own ends, they may be tempted to overstate the advantages of their proposal over all other proposals, leading to selections which are either invalid or inappropriate, and a portfolio which is suboptimal.

A recent article on the politics of project approval (1), presented a list of seven ways to get a project approved. The first entry in this list is *Designate the project as being 'strategic'*, which relates to the concept of strategic alignment. If an organisation has developed a set of strategic objectives without developing a top-down implementation plan, the way is left open for claims that what may be essentially tactical projects are 'mandatory' because they somehow support one of the organisation's strategic objectives. Such claims are not often challenged, particularly if the strategic objective is somewhat vague, and the traceability of project deliverables and benefits back to strategic objectives is not explicitly explored. The contribution of such projects to achievement of strategic objectives often cannot be measured.

Other entries in the list include understating costs or payback periods, overstating benefits, or underplaying the burden of effective risk management, to improve the attractiveness of one proposal in comparison with competing proposals. While the above list was created for humorous or illustrative purposes, a project management professional who has been asked to develop a justification for a project based on one or more of these approaches would clearly be facing something of an ethical dilemma.

There is of course another issue that relates particularly to ICT-related projects. It is often assumed that once the capabilities that the project is providing to the organisation have been delivered, that the claimed benefits used to justify the project will naturally flow. This may be so in the case of output benefits, which relate to benefits immediately available when the new or changed capabilities to be provided by a project have been delivered. However it is not generally so in the case of outcome benefits, which are associated with the achievement of strategic objectives through operational use of these capabilities. Many technical projects are started without the business knowing exactly what type and quantum of outcome benefits are expected to be realised and by whom. There may also be no mechanism for tracking realisation of benefits over time, nor any allowance for the cost of realisation activities, benefits measurements or benefits reviews.

Strategic planning activities in most organisations result in the identification of many possible initiatives, but analysis of these proposals is generally not detailed enough to confirm that the initiatives are achievable within political, financial and human resource constraints. An analysis of alternatives has also not generally been done, nor has the contribution of each initiative to each strategic objective been quantified and agreed, nor has the organisation's capacity to absorb the associated changes been assessed. Project management by its very nature is a tactical approach to implementing solutions, whereas program management provides a bridge between setting strategic objectives and implementing tactical solutions, by providing an opportunity for making pragmatic decisions in a complex environment then coordinating the delivery of value and strategic business outcomes.

This paper provides an alternate approach – a benefits-focussed approach to project justification and evaluation, linking the Balanced Scorecard approach at the strategic level to the Benefits Map component of MSP at the tactical level.

Balanced Scorecards and Strategy Maps

The Balanced Scorecard (BSC) method of Kaplan and Norton (2) is a strategic approach, and performance management system, that enables an organisation to translate its vision and strategy into implementable change initiatives. An organisation with a core competency in effectively managing change is likely to be valued more than an otherwise identical organisation. By 'managing change', I mean all of those elements required to be in place for the organisation to detect and respond to changes in its environment, including implementing internal change initiatives, more effectively than their competitors.

While the financial performance of an organisation is essential for its success, most organisations need a way to deal with their intangible assets, if for no other reason than, for some organisations, a significant proportion of their market valuation derives from their intangible assets. For this reason, the BSC approach is based on four perspectives, not solely the financial perspective. The four perspectives are:

- Financial;
- Customer;
- (Internal) Business Processes;
- Learning and Growth.

Some authors advise replacing or supplementing the financial perspective with a fifth perspective, Stakeholder, with related objectives such as *Achievement of Mission*, to better reflect the situation of public sector and non-profit organisations. The intent of this approach is that to implement a balanced organisational strategy, organisations should commission initiatives in all of these areas.

The BSC approach helps to integrate various corporate functional silos, for example operations, ICT and marketing. As well, it assists organisations to break down broad strategic measures into more discrete, implementable initiatives, so that line managers and employees can see what's required at their level to achieve excellent overall performance.

Associated with the BSC approach are Strategy Maps, diagrams that describe how an organisation intends to create value. By connecting such things as shareholder value creation, customer management, process management, quality management, core operational capabilities, innovation, human resources, information technology, organisational design and learning with one another in one graphical representation, Strategy Maps can help to encapsulate the overall strategy and to communicate the strategy to executives and employees. In this way consensus can be created around the strategy, which makes a successful implementation of the strategy more likely. Figure 1 shows a much simplified Strategy Map for a telecommunications company.

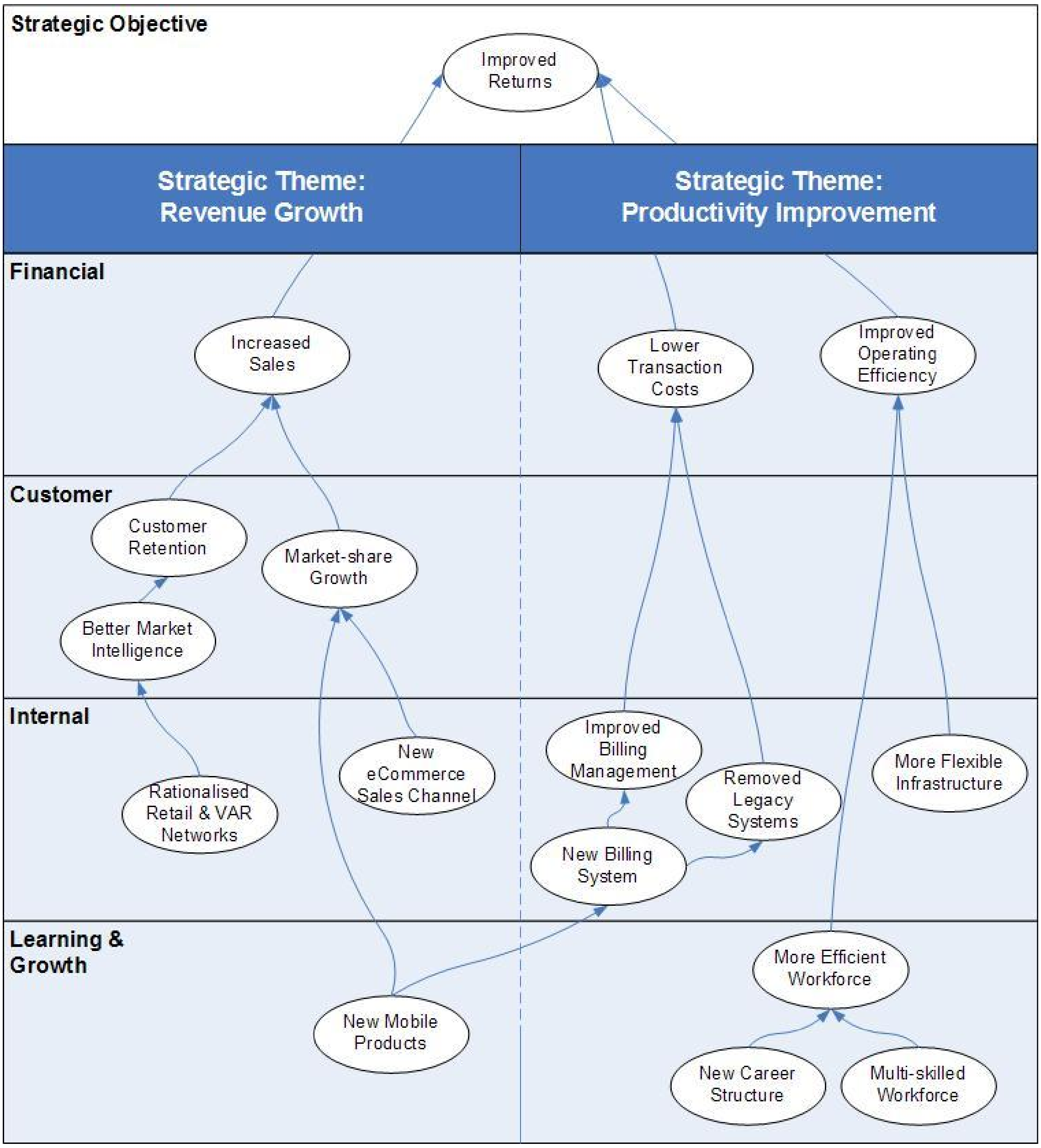

Figure 1 Example Strategy Map for a Telco

For each perspective on the Balanced Scorecard, four implementation issues are identified:

- **Objectives**: major objectives to be achieved, for example profitable growth;
- **Measures**: the observable parameters that will be used to measure progress toward reaching the objective. For example, the objective of profitable growth could be measured by growth in net margin;
- **Targets**: the specific targets values for the measures, for example 5% annual increase in net margin;
- **Initiatives**: Projects or programs to be initiated in order to meet the objective.

Processes are then designed to collect data relevant to the metrics and reduce this data to numerical form for storage, display, analysis and management reporting. Decision makers examine the outcomes of various measured processes and strategies, and track the results to guide the organisation and provide feedback.

Benefits Models

Benefits Models appeared as Benefits Dependency Networks in research conducted by John Ward and others (3) within the Information Systems Research Centre at Cranfield University's School of Management, and as Results Chains in a proprietary method developed by John Thorp and others (4) of the DMR Consulting Group. They subsequently appeared in the MSP program management method, with associated specifications of benefits called Benefits Profiles. The MSP method (5), from the stable of methods supported by the UK Office of Government Commerce, incorporates aspects of Ward's benefits-focused approach as one of the key elements in definition and justification of programs (defined as a portfolio of projects with a common strategic objective) and in subsequent governance of these programs.

In the MSP method, outcomes are defined as changes to real-world behaviour or circumstances achieved as a result of the activities undertaken to effect the change. Benefits are defined as the quantifiable and measurable improvement resulting from an outcome. Once the program's objectives have been determined or confirmed, the program definition process commences, and includes the following steps:

- Envision the future
  - Capture the **vision** of the program, linked to the strategic objectives assigned to the program;
  - Create a **blueprint** to describe the future state of the organisation after the program has completed;
- Know what constitutes value and establish how it will be delivered
  - Identify the **benefits** to be delivered by the program. Create a Benefits Model to understand dependencies, then specify the key benefits in Benefits Profiles, including metrics and targets acceptable to the user community;
- Develop plans and justifications for getting there
  - Identify the **projects** that will be required to move the organisation from its current state to the state described in the blueprint, and to realise the benefits to be realised by the program;
  - Develop **integrated plans** for projects, phasing of projects, communication and realisation of benefits;
  - Develop a **Business Case** bringing together the value of benefits and the costs of projects and benefits realisation to justify the program.

Experts in the MSP method understand that if implementation planners move directly from the program's objectives to identifying projects, the core value of the method has been broken: there is no shared vision to unify and guide decision making, the desired benefits have not been adequately defined and are unlikely to be achieved, alternatives have not been adequately explored, strategic alignment is likely to be no more than notional, and the engagement of key stakeholders is likely to be only short-term.

Dependencies between benefits will influence the sequencing and prioritisation of projects and benefit realisation activities. A Benefit Model covering the entire set of benefits should be created in order to understand the interrelationships between benefits and the various projects in the program's portfolio. An outcome relationship modelling exercise could be used to understand the interactions and possible impacts of each desired outcome. The program team would ideally work closely with the strategy development teams, to ensure alignment of the program with organisational strategy. Each benefit's prerequisites would need to be considered, as would any assumptions or external dependencies outside the control of the program that may affect planned realisation of benefits. The benefits model should consider both short- and long-term benefits. Short-term benefits are more likely to be realised, and will demonstrate to stakeholders that the program is successful. Longer-term benefits may not appear until long after the program has closed, and may generate less commitment and enthusiasm. It may be better to identify intermediate activities or benefits.

Benefits Models provide a means for ensuring that projects are aligned 'by design' with strategic objectives, that each strategic objective will be adequately serviced by projects, and that the contribution of specific projects to various strategic objectives can be quantified.

In many respects, the creation of the blueprint and the specification of the benefits are the most difficult, intellectually challenging and potentially most time-consuming aspects of this process. However, what is gained is an understanding of the complexities and dependencies involved, a project portfolio aligned by design to the relevant strategic objectives, metrics and targets that the user community have agreed in advance are relevant and will be achievable, and a clearer basis on which to evaluate any future changes to the project portfolio. Figure 2 displays an example Benefits Model for a program in a telecommunications environment.

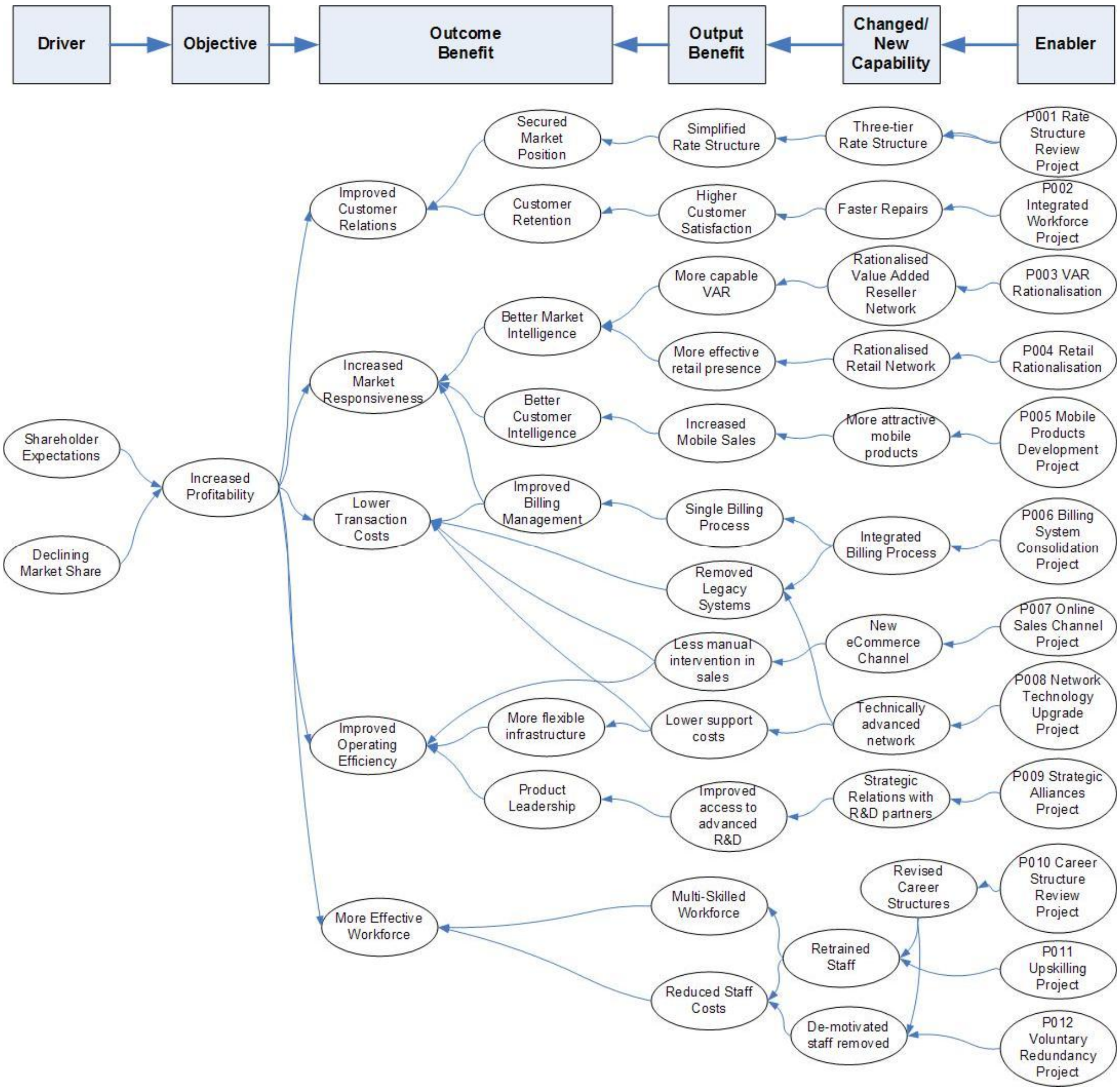

Figure 2 Example Benefits Model for a Telco program

Each sequence of links from enabler to objective in the model can be used to build a statement of claim as to how each objective will be achieved. Each link in these statements can be scrutinised closely, challenged and verified, increasing confidence in the overall program because stakeholders understand how the benefits picture will unfold. The statements themselves can be incorporated into marketing messages to stakeholders to enhance buy-in.

A Benefit Profile would normally be created only for each key outcome benefit. A Benefit Profile is a specification of a benefit, and includes the following aspects:

- **Interdependencies** with other benefits;
- **Timeframes** for benefits realisation;
- **Measures** for the benefit, and how they will be carried out;
- **Targets** for each measure, with a varying profile over time if necessary;
- **Required changes** in operational environments to permit the benefits to be realised;
- **Likely costs** related to realisation and measurement activities;
- **Projects** in the program directly related to the benefit;
- Any **dependencies** on risks or other programs;
- The named individual **responsible** for realisation of the benefit.

The Benefits Profiles form the basis for both the project portfolio, the program Business Case, benefits measurement and tracking systems and management reporting.

Linking Balanced Scorecards and Benefits Models

There are two general ways to link the Balanced Scorecard approach with Benefits Models.

<u>Standalone Processes</u>

The simplest way to link both processes is to keep them standalone and use a common set of objectives as integrative elements. Key outcome benefits would be specified in Benefits Profiles, key capabilities would be specified in Product Descriptions, and an outline of the scope of enabling projects would be specified in Project Briefs. Figure 3 illustrates how this might be represented.

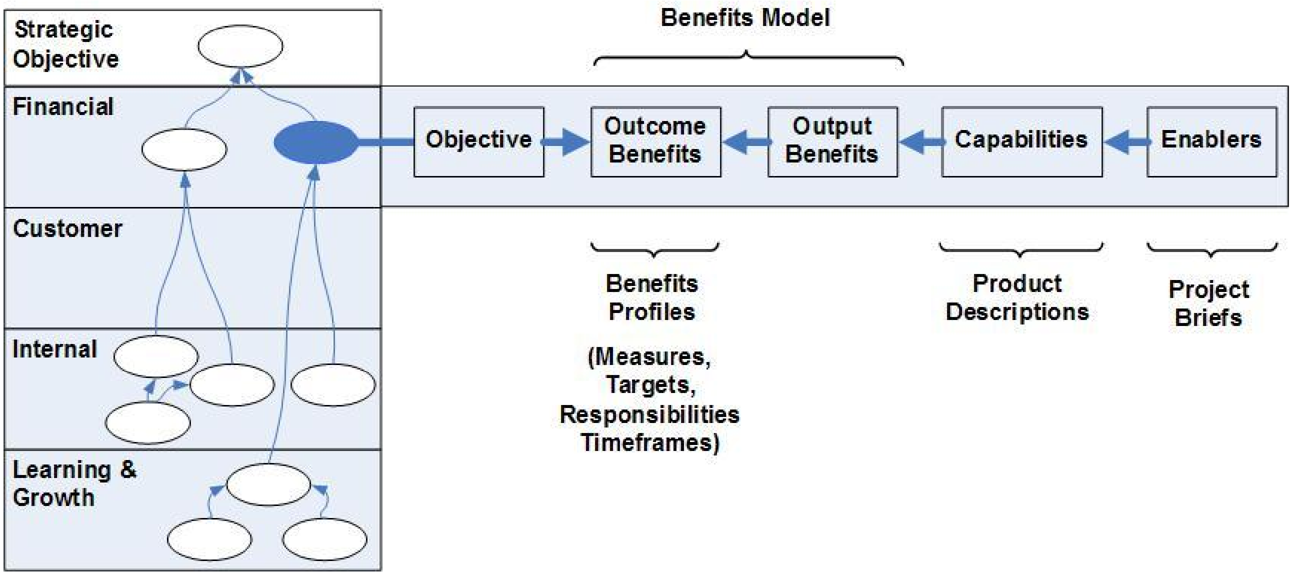

Figure 3 Linking the Strategy Map to the Benefits Model

The advantage of this approach is that since many organisations keep the strategy setting process separate from the implementation planning process, it may be that the Strategy Map has been completed before the portfolio and program planners become involved. This will be particularly relevant where there is a cascading set of Balanced Scorecards, from enterprise-wide through business unit to supporting functions such as ICT. The implementation planners would simply take as given the objectives shown in the relevant Strategy Map, and develop supporting Benefits Models. Once completed, the Benefits Model would enrich the Strategy Map, by providing much more detail, particularly benefits measurement and realisation activities, and by identifying the individual who has accepted responsibility for each benefit. Development of Product Descriptions and Project Briefs for associated capabilities and projects, respectively, would ensure that stakeholders reach consensus regarding the scope of the program as early as possible. The Strategy Map would then become a high-level summary of the Benefits Model, but would not otherwise be useful in managing implementation.

The disadvantage of this approach of course is that if the implementation planning process reveals that implementation cannot be achieved within acceptable constraints, then the strategic planning process is at least partially invalidated, particularly in terms of timing. It may be that some strategic objectives are not achievable at all, or must be deferred to a later planning or technology cycle, or at least that the level of benefits desired must be scaled back to more realistic levels.

Integrated Processes

A more effective approach would be to drop the Strategy Map entirely and replace it with a Benefits Model. Both tools support implementation planning and tracking of implementation. The claim of this paper is that Benefits Models provide a richer, more useful decision support and monitoring tool. In practice, strategic planners and implementation planners would together work through several iterations of objectives and benefits, with greater detail developed in each round, until the level of confidence in the Benefits Model and overall implementation plan was sufficiently high to justify acceptance of the strategy being developed. Implementation planners could then confidently increase the detail in implementation and benefit realisation plans to whatever level was required to commence commissioning projects. Benefits and initiatives associated with the various BSC perspectives could be colour coded, so that overall balance within the program could be visually checked. Again, development of Product Descriptions and Project Briefs for associated capabilities and projects, respectively, would ensure that stakeholders reach consensus regarding the scope of the program as early as possible. Figure 4 illustrates how BSC perspectives might be reflected in a Benefits Model. This representation could also act as a program progress dashboard, with the addition of status indicators against each element.

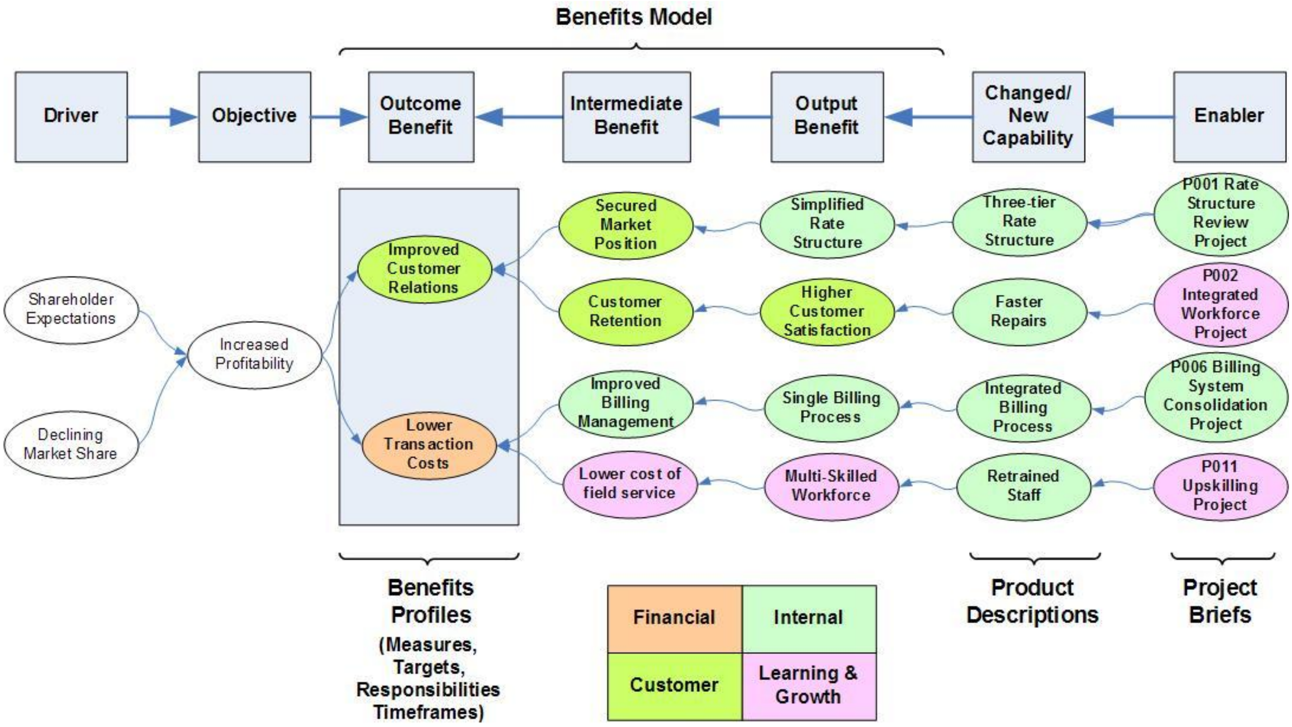

Figure 4 Reflecting BSC perspectives in Benefits Models

The advantage of this approach is that the same tool is used in strategic planning, program definition and program governance. The Benefits Model is a better decision support tool than a Strategy Map, in that each component has been derived from previous components through use of a robust process that requires early stakeholder engagement and commitment. The approach is top-down, with traceability back to the approved strategic objectives from every initiative to be commissioned by the program.

Development of Benefits Profiles, Product Descriptions of key capabilities and Project Briefs of enabling projects, and review and approval of these artefacts, may require some considerable time. However, this time is consumed already; this approach simply front-loads the effort. What is different is that the final Strategic Plan is not published until the organisation has a high-level implementation plan that confirms that the strategic objectives can probably be met within political, financial, time and human resource constraints. Strategic alignment and stakeholder engagement is ensured by the approach, and hence need not appear in the Business Case of any project; projects need to be justified on more tangible, testable metrics that have already been identified at program level.

Conclusion

A benefits-focussed process of step-wise refinement from strategic objectives through Benefits Models to projects, can be achieved by integrating the Balanced Scorecard approach with the Benefits Model component of MSP. This will increase the effectiveness of the strategic project portfolio and improve the confidence of business sponsors that their investment in projects will return benefits that they perceive to be of value. Replacing Strategy Maps with Benefits Models means that a single tool is used to bridge the gap between strategy definition and implementation planning.

Benefits Models make strategy implementation visible, testable, and measurable, in a way not possible with Strategy Maps. Integrating the Benefit Model approach into the strategic planning process would provide strategic alignment by design, traceability back to strategic objectives, attribution of benefits to projects, step-wise refinement of scope and justification, early stakeholder engagement and buy-in, etc as by-products of the process, rather than aspects that require additional effort.

Benefits Models can be encoded with the four perspectives of the Balanced Scorecard approach to ensure that benefits and initiatives are balanced across the perspectives.

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Author Bio

Geoff Rankins has been a practicing project manager for over 35 years, and has been recognised as a Certified Practicing Project Director by the Australian Institute of Project Management. He is convinced of the importance of well-formed and well-governed projects and programs to organisational success. As well as his ongoing contribution to real-world projects, and his contributions to the development of PRINCE2, MSP and various national and international standards, he now offers organisations the benefit of his experience at all levels as a consultant, coach, trainer and presenter.

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