Value and Benefits

Why do we do projects? What are we trying to achieve?

Asking such questions in years gone by may have resulted in answers such as "to create deliverables or products to time, cost and quality". More recently it is understood that the deliverables are only enablers to delivering benefits. Indeed there is often no linkage between the successful delivery of a product to TCQ and the achievement of benefits, for example Wembley Stadium was late and over budget but there is every chance that the benefits as the national football arena will be felt for many years to come.

We should not however be willing to accept benefits at any price but only benefits at a cost that makes them worthwhile, thus creating value. So could it be that benefits are after all only enablers themselves in the process to achieving value?

There are many definitions of value but essentially what is meant is value for money, i.e. the goods, services or products received are worth the time, cost and effort expended in obtaining them. General definitions of value in this context can be found in the British Standard (BS EN 12973) and the Institute of Value Management (ivm.org.uk).

A more useful definition of Value for project management can be found in the government's Management of Value publication (OGC 2010, Management of Value) where is it described as the ratio of the satisfaction of needs (benefits) and the use of resources (money, people, time, energy and materials) which will normally boil down to cost. The term benefits here can be expanded to include stakeholder requirements, as the two are often related. As the units are often unrelated, the equation here is shown as a proportionality rather than equality.

$$V \text{ (value)} \propto B \text{ (benefits + requirements)} / £ \text{ (cost)}$$

OR

$$V \propto B/£$$

So the concepts of Value and Benefits are not the same thing, but they are clearly related.

In addition to value and benefits being different concepts, there is in practice, a timing issue between them. Value is initially created in the Concept phase of a project when the business case is first produced and the direction of a project is agreed. The reason for doing the project should be tested to ensure it will create value for the organisation and its stakeholders. In addition, the option chosen to deliver the benefits needs to be tested to ensure it gives the best value for money: There are generally a number of different ways of delivering the benefits and one is likely to provide better value than another. Benefits should, at this early stage in the project, be stated with clarity and in a measureable form.

On the other hand the benefits themselves are normally achieved after the project is completed, in the Operational phase of the deliverables. By this time all the money has been spent, the product has been delivered and the creation of value depends entirely upon delivering the benefits. To have spent the money then to fail to deliver, or only partially deliver, the benefits will almost certainly result in a significant loss of value. Benefits Management is therefore a key aspect in the delivery of the value that was potentially created in the early phase of the project.

Value Management (VM) is a technique that, if used correctly and at the right time in the life of a project, can greatly enhance the value for money that a project can deliver. It works though a facilitated process that initially concentrates on the problem to be solved or opportunity to be gained to ensure the project has a solid business case that will create value. VM will consider the business drivers through "functional analysis" and thus confirm or otherwise the validity of the problem or opportunity in terms of their ability to deliver value to the organisation. It can also assist the description of benefits in the business case. Once the business case is established, then potential solutions can be considered through a creative process, and the best value option for project delivery can be selected, taking into account factors such as risk, technical capability and political acceptability. Value Engineering can similarly improve designs to create further potential value for money later in the project lifecycle

Value can be retained throughout the project lifecycle using risk management (to stop the erosion of value through unmanaged threats), appropriate procurement strategy (concentrating on value rather than cost) and ensuring on-going costs and schedules are in line with the original plan (monitoring through Earned Value Management).

To conclude, value and benefits are related but they are not the same thing and the ultimate aim of a project is to create value for the organisation and its stakeholders. Benefits must be delivered to achieve value for the organisation. Value however must be created at the beginning of the project through the development of the business case and in the selection of the option to be delivered. Value must be maintained throughout the project using, for example, risk, procurement and cost & schedule management. Value Management and Value Engineering are techniques that can help to create value early in the life of a project.

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References

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