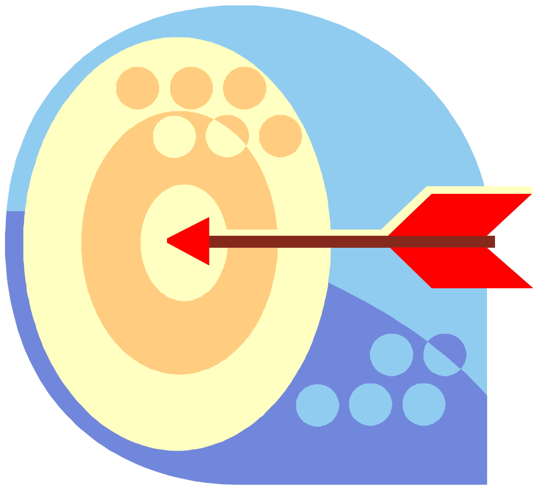
Governance, Risk & Compliance

TOPIC 4 : BENEFITS REALIZATION

Objectives

- Definition of Benefits Realization
- Program Management
- Full Economic Life-cycle Management
- Portfolio Management
- Benefit Calculation Techniques
- Process and Service Measurement Techniques



Definition of Benefits Realization

- Objective of benefits realization is to ensure that :
  - IT-enabled business investments achieve the promised benefits and deliver business value
  - Required capabilities are delivered on time and within budget
  - IT services and other IT assets continue to contribute to business value
- Focus on benefits realization is that many high expenditures on IT-related initiatives are not realizing their expected business benefits.

Business Case

- A comprehensive business case is critical to the outcome of any project involving IT.
- A business case contains assumptions on how value will be created and these assumptions should be well tested to ensure that expected outcomes are achieved.
- A business case is the primary tool for designing and articulating the expected benefits that may result from the project.

Program/Project Management

- Realizing value requires the effective use of IT in conjunction with associated changes in the business process, individual’s work and organizational structures.
- Effective program/project management requires constant focus on
  - desired business outcomes
  - Relationship between various initiatives
  - How the initiatives contribute to the ultimate business value

Benefits Realization

- Benefits realization is important because not all benefits are equal.
- There are 2 main types of benefits :
  - Business benefits
  - Intermediate benefits
- Intermediate benefits do not directly create value, although they do benefit one or more groups of stakeholders.
  - E.g., improvement in customer service that do not contribute to increased profits.

Benefits Realization

- Business benefits create value in that they increase company's profits.
- Benefits realization also help to ensure that intermediate benefits contribute to business benefits.
- To achieve this, we need to focus on benefits realization through actively managing investments across their full economic life cycle.

Benefits Realization

- Benefits realization further ensures that the realization of business benefits is unfolding at levels of return sufficient to merit the resources being expended to achieve the benefits.
- In the absence of benefits realization, optimal value will not be created or worse, value may be eroded or destroyed.

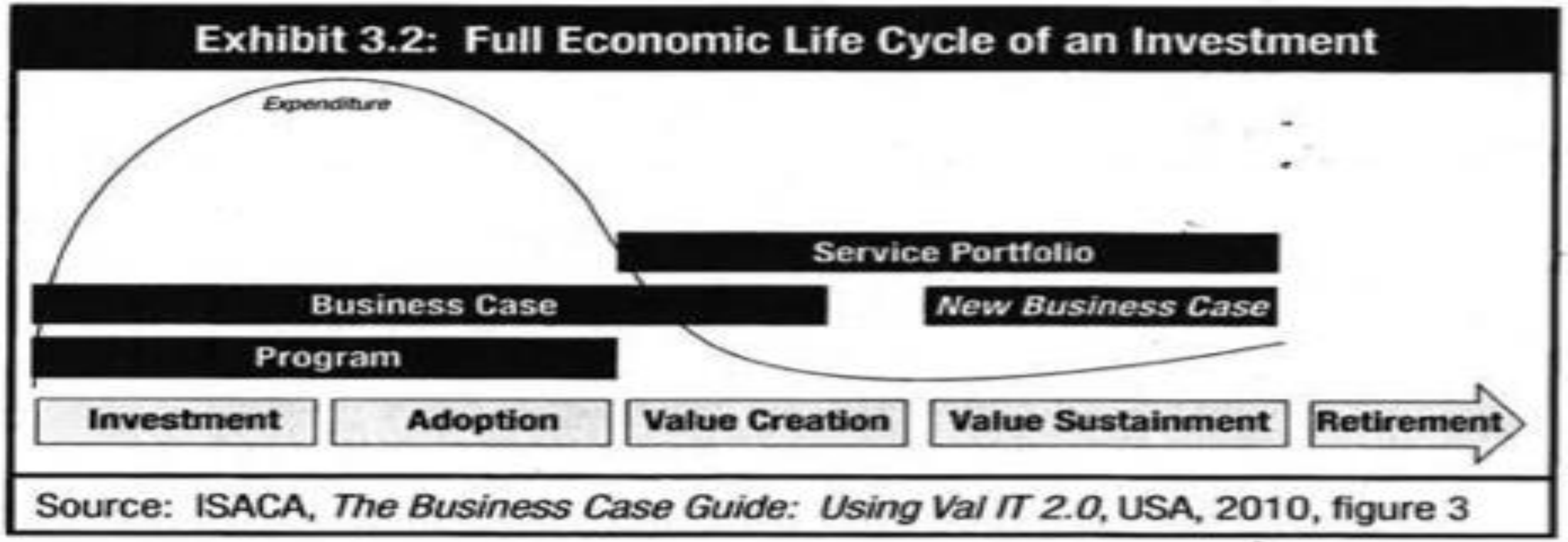
Full Economic Life Cycle Management

- The main issue with managing programs is lack of continuity in the program plan after delivering the required business and IT capabilities.
- In general, the benefits and expected value will not be realised until after some time.
- The program need to be seen through its full economic life cycle in order to realize its full benefits.

Full Economic Life Cycle Management

- A full economic life cycle of an investment program include:
  - **Investment phase** : developing the necessary capabilities
  - **Adoption phase** : Implementing the capabilities
  - **Value creation phase** : Achieving the expected level of performance and moving the delivered capabilities into the active service portfolio.
  - **Value sustainment phase** : Assuring that the assets resulting from the investment continue to create value, which may well include additional investments required to sustain value
  - **Retirement phase** : Decommissioning the resulting assets

Full Economic Life Cycle



Portfolio Management

- A *portfolio* is a collection of programs, projects and/or operations managed as a group. The components of a portfolio may not necessarily be interdependent or even related—but they are managed together as a group to achieve strategic objectives.
- Portfolio management is the centralized management of one or more portfolios, which includes identifying, prioritizing, authorizing, managing, and controlling projects, programs and other related work to achieve specific strategic business objectives.

Portfolio Management

- Aim of portfolio management is to ensure that an enterprise secures optimal value across its portfolio or IT-enabled investments.
- It helps enterprises to :
  - Establish and manage resource portfolio
  - Define investment thresholds
  - Evaluate, prioritize, and select, defer, or reject new investments
  - Manage and optimize the overall investment portfolio
  - Monitor and report on portfolio performance

Portfolio Management

- IT-enabled business investment programs need to be managed as part of an overall portfolio of investments.
- They can then be selected and managed on a common basis.
- Programs in the portfolio need to be:
  - Clearly defined
  - Evaluated
  - Prioritized
  - Selected
  - Managed actively throughout their full economic life cycle

COBIT Portfolio Management Process

- COBIT prescribes the following processes for effective portfolio management.
  - Establish target investment mix
    - Review and ensure that the investment mix, based on cost, alignment with strategies and financial measures such as cost and ROI, is optimal.
  - Determine the availability and sources of funds
    - Find funding source and implications of fund source on return expectations.

COBIT Portfolio Management Process

- Evaluate and select programs to fund
  - Based on the overall investment portfolio mix requirements, evaluate and prioritize program business cases, and decide on investment proposals. Allocate funds and initiate programs.
- Monitor, optimise and report on investment portfolio performance
  - On a regular basis, monitor and optimize the performance of the investment portfolio and individual programs throughout the entire investment life cycle.
- Manage benefits achievement
  - Monitor the benefits of providing and maintaining appropriate IT services and capabilities, based on the agreed-on and current business case.

Benefits of Portfolio Management

- Provides a holistic approach towards the achievement of enterprise objectives by considering a group of activities together.
- Promotes sharing, economies of scale, and even providing mutual benefits where it would have been impossible to achieve without portfolio management.
- Allows the management to allocate resources according to the relative importance (and urgencies) of each portfolio.

Benefits of Portfolio Management

- Portfolios can be organized according to one or more of the following ways:
  - **Categories** : programs and projects that belong to the same category can be grouped into a portfolio and managed holistically. This allows for synergies between the projects, allowing for initiatives such as resource sharing and specialization.
  - **Product or service** : programs and projects that contribute towards a particular category of service or product can be grouped and managed together as a portfolio. This allows for the timely realization of the benefits when the service or product is launched or delivered to its customers.
  - **Resource usage** : programs and projects can be grouped and managed together when they utilize or depend on a certain number of common resources, such as raw materials, parts or expertise. This allows for initiatives such as specialization and economies of scale to be realized. The resulting product or service can also benefit from innovations due to the resources used.

Benefit Calculation Techniques

- Benefit calculation techniques are a key aspect of communicating the expected value of a business plan.
- Examples :
  - Breakeven analysis
  - Cost-benefit analysis (CBA)
  - Payback period
  - Return on investment (ROI)
  - Service life cycle

Financially-oriented Cost-benefit Techniques

- Based on quantifiable values, they are preferred as they provide absolute values to measure benefit.
- Payback period – measures the time period necessary to recoup the initial investment. This is used to evaluate an investment or compare a set of mutually exclusive investments.
- ROI – A relatively simple calculation that provides decision-making information in terms of a ratio. The ratio of expected profit to the initial investment cost is compared to the opportunity cost of capital. If return is greater, the greater the likelihood the investment is undertaken.

Non financially-oriented Cost-Benefit Analysis

- Non financially-oriented CBA tries to overcome problem of financial ROI by finding a surrogate measure for intangible costs or benefits.
- Used when there is an issue with quantifying the value of benefits or difficulty in identifying benefits or costs which do not have a ready market value.
- Useful when benefits are largely intangible.
- Some examples of non-financial benefits include:
  - Organizational flexibility
    - Ability of the organization to respond and its ease of responding.
    - Viewed as a source of competitive advantage.
  - Information economics
    - Is the notion that information has economic value

Process and Service Measurement Techniques

- Measurement of performance is essential in benefits realization.
- Management needs to have an idea of how well benefits are being realized through the initiatives.
- The Balanced Scorecard allows for the evaluation of IT from the user's perspective.

Process and Service Measurement Techniques

- Maturity model, based on the ISO 15504 standard, evaluates the capability of the organization against six levels of maturity or capability.
- They are :
  - 0 Incomplete process – The process is not implemented or fails to achieve its process purpose. There is little or no evidence of any systematic achievement of the process purpose.
  - 1 Performed process – The implemented process achieves its process purpose.
  - 2 Managed process – The performed process is implemented in a managed fashion, and its work products are appropriately established, controlled and maintained.
  - 3 Established process – The performed process is implemented using a defined process that is capable of achieving its process outcomes.

Process and Service Measurement Techniques

  - 4 Predictable process – The performed process now operates within defined limits to achieve its process outcomes.
  - 5 Optimizing process – The performed process is continuously improved to meet relevant current and projected business goals.
- Each of the above levels include all the previously described attributes.
- Capability maturity measures the level of ‘maturity’ of the process.

Conclusion

- Benefits realization follows a defined and intentional process to ensure investments are realized into benefits.
- Benefits may come in both financial and non-financial aspects.
- Appropriate techniques are required to help visualize and measure the benefits for stakeholders.