Realising Benefits from Projects & Programs

The Case for Disciplined Investment Management (& 8 things you can do about it)

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The Problem: the track record in delivering RoI isn't good

"*Most large capital investments come in late and over budget, never living up to expectations. More than 70% of new manufacturing plants in North America, for example, close within their first decade of operation. Approximately three-quarters of mergers and acquisitions never pay-off … And efforts to enter new markets fare no better; the vast majority end up being abandoned within a few years.*" Lovallo & Kahneman

"*the evidence shows that two thirds of public sector projects are completed late, over budget or do not deliver the outcomes expected*" and "*The track record of project delivery in the private sector is equally mixed.*" NAO

"*At the same time as many more and much larger infrastructure projects are being proposed and built around the world, it is becoming clear that many such projects have strikingly poor performance records*" Flyvbjerg et al

"Up to 70% of change initiatives fail to deliver on the benefits that they set out to achieve."

John Kotter

Causes (1) – Cognitive biases

"we overemphasise projects' potential benefits and underestimate likely costs, spinning success scenarios while ignoring the possibility of mistakes."

Daniel Kahneman

The Planning Fallacy

Causes (2) there is another explanation…

"it is found with overwhelming statistical significance that the cost estimates used to decide whether such projects should be built are ***highly and systematically misleading****"* and demand forecasts are, "***significantly misleading*** *(inflated). The result is large benefit shortfalls*". **Bent Flyvbjerg**

"Strategic Misrepresentation"

Causes continued…

- Activity rather than results-led change
- The ‘Build it & They Will Come’ fallacy
- The ‘Knowing-Doing gap’
- ‘Box ticking’ & the Status Quo bias…

“A good deal of corporate planning … is like a ritual rain dance. It has no effect on the weather that follows, but those who engage in it think it does. … Moreover, much of the advice related to corporate planning is directed at improving the dancing, not the weather.” **Brian Quinn**

“Most corporate change programs mistake means for ends, process for outcome.”
Schaffer & Thomson

Solutions – Disciplined Investment Management

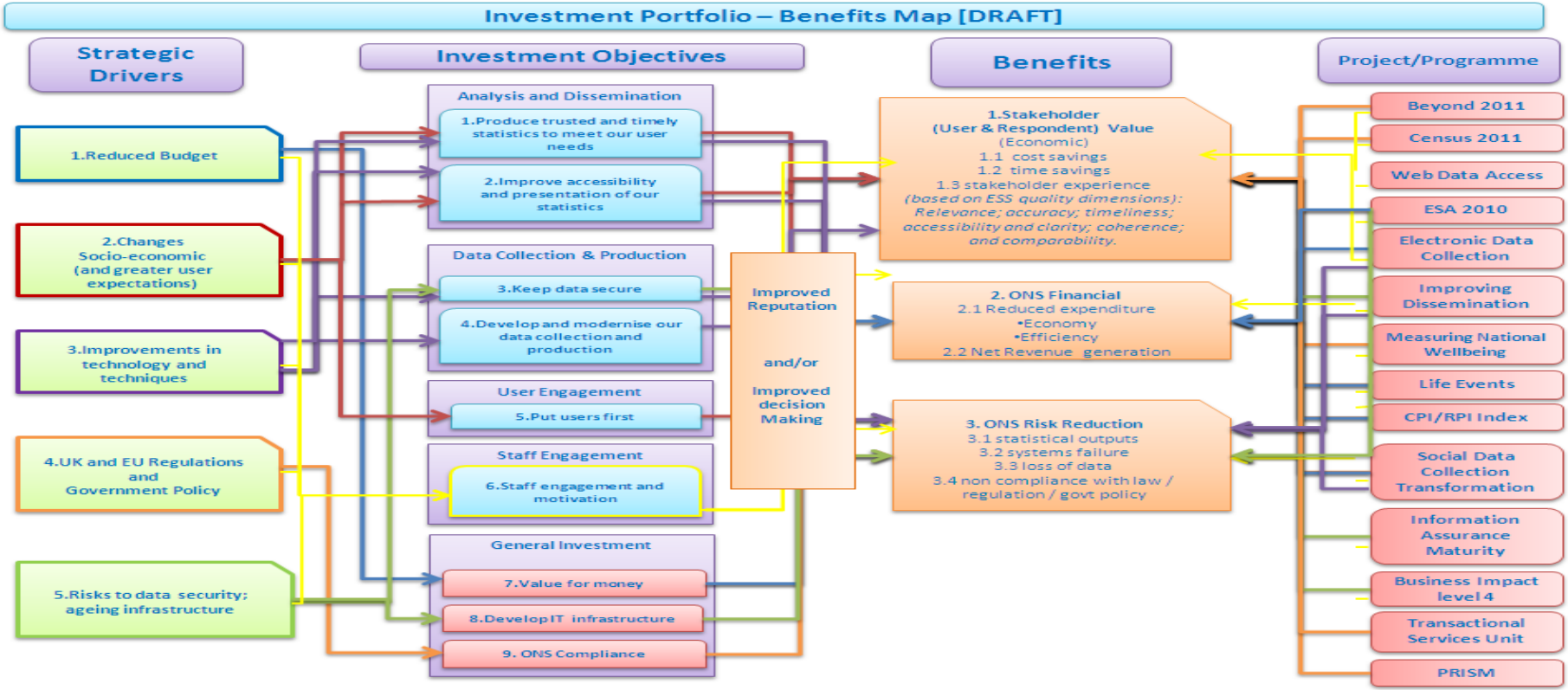
Source: Spetzler, Strategic Decisions Group

1. Segment the portfolio

Increased Revenue	Reduced Costs
Strategic Contribution	Mandatory Requirement

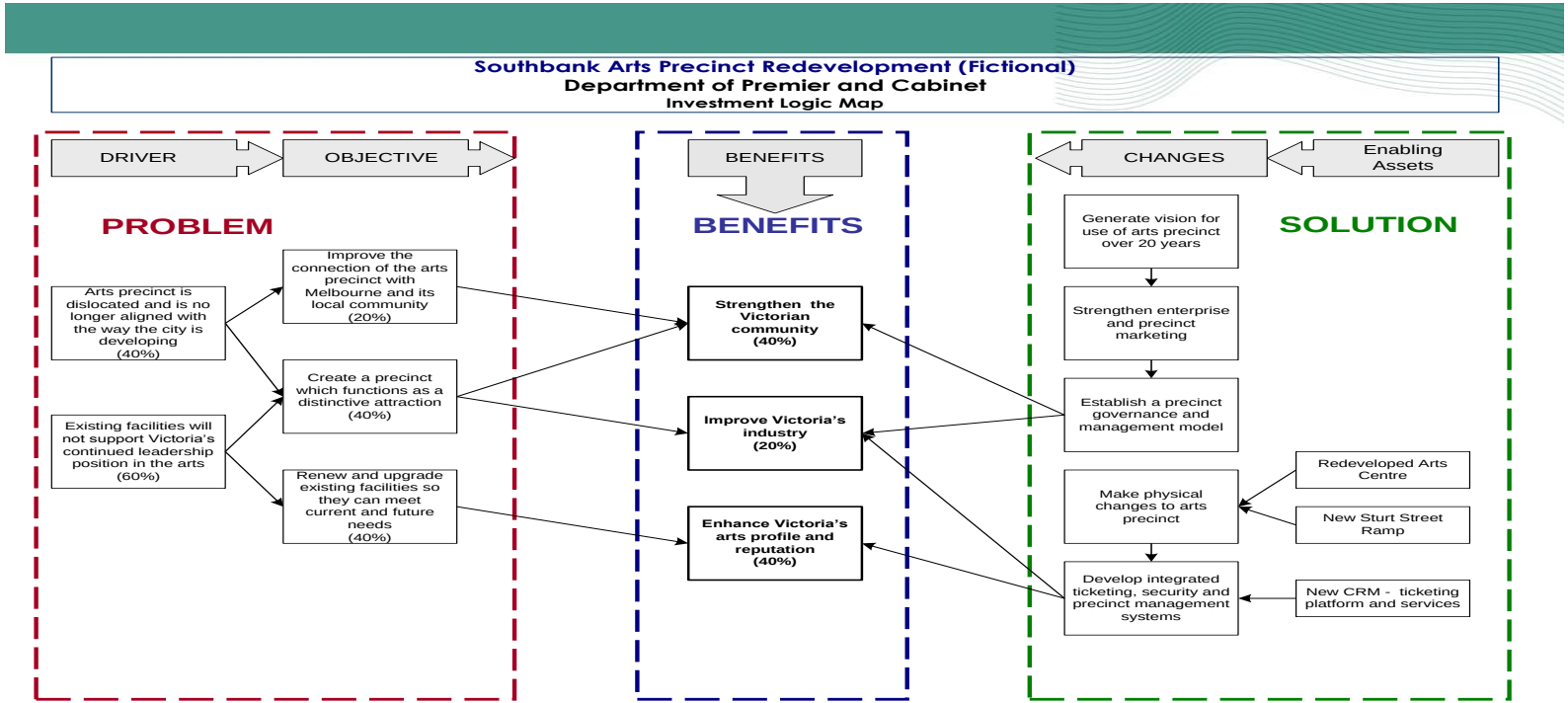
And tailor the investment criteria accordingly

2. A portfolio view on the benefits to be realized



Source: ONS

3. Start with the End in Mind



Source: The Victorian Investment Management Standard

i.e. Benefits-led vs Activity-centered programs

4. Being clear about the benefits you are buying

"*We were survivors, dwellers forever in the cracks of the vast organisational chart. Disperse us, downsize us, squash us, transfer us, and we will reassemble someday, somewhere, to once again build new layers of redundancy, waste, and glaring irrelevance*." **Lerner**

5. With more reliable forecasting…

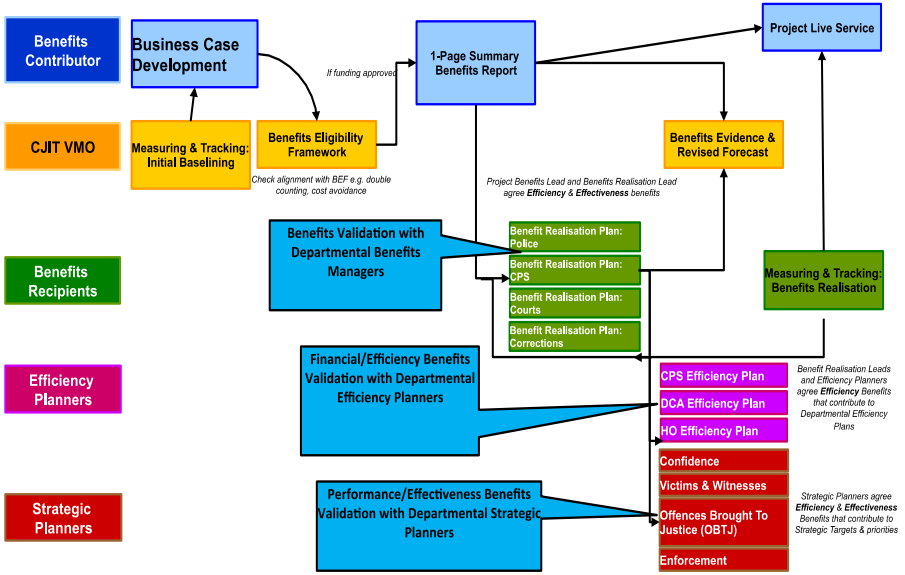
- Range forecasting
- Wisdom of Crowds
- Delphi technique
- Optimism bias adjustments
- Reference class forecasting

Answering the 'how much?' question

6. Integrate benefits with the performance management regime – 'booking' the benefits

Contract sign-off			
Project Executive sign-off:		Date:	
Benefit Owner sign-off:		Date:	
Business Partner sign-off:		Date:	
Business Change Manager sign-off:		Date:	

Source: Bristol City Council



Source: CJS IT

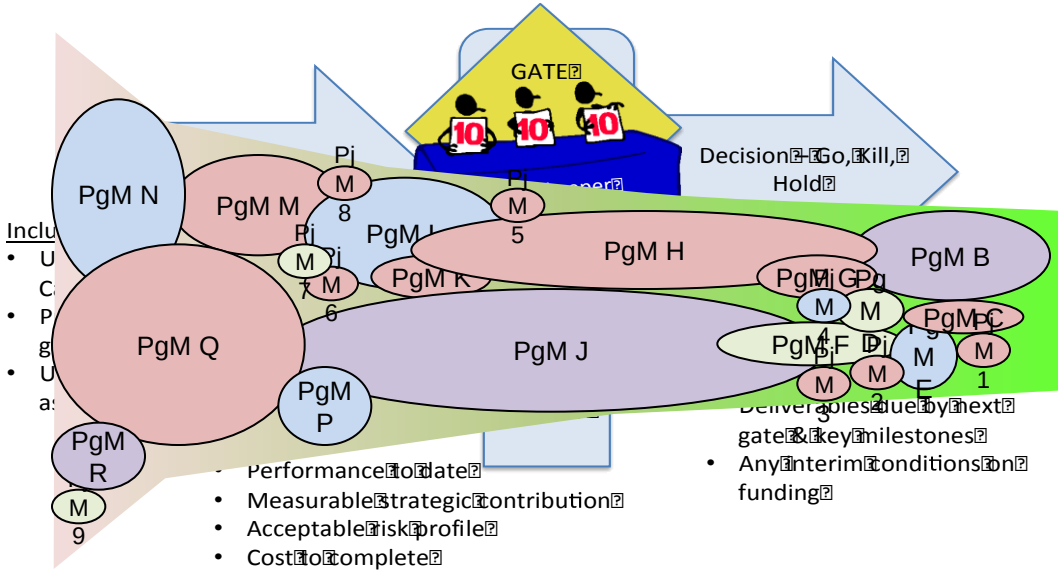
Sufi parable: "*Trust in God, but tether your camel.*"

7. Challenge – *"Adversarial collaboration"*

"humans not only are prone to make biased predictions, we're also damnably overconfident about our predictions and slow to change them in the face of new evidence. In fact, these problems of bias and overconfidence become more severe the more complicated the prediction." **Ayres**

As Shakespeare said - are you "*wise enough to play the fool*"?

With Staged Release of Funding & ‘Gates with Teeth’



Regular review - including a rigorous Start Gate

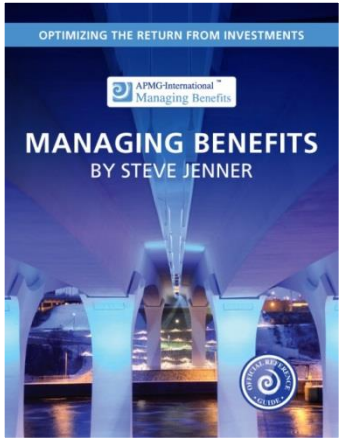
8. Learning from experience Rigorous post-implementation review

- **Summative** – real evidence on whether the performance matched the promise
- **Formative** – what did we learn in relation to:

  - Future forecasting (reference class data)?
  - Our project & program management processes?
  - Validating the business model and the assumptions underpinning strategic objectives?

and why wait: consider 'pre-mortems'

Thank you



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