



Good Governance for Development
(GfD)
in Arab Countries

Working Group 2 on E-government and Administrative Simplification

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High Level Seminar on Measuring and Evaluating E-government and
3rd Working Group Meeting

DOC N5

**DRAFT SUMMARY OF THE OECD REPORT ON BENEFIT
REALISATION MANAGEMENT**

12/13 March 2007

Dubai, United Arab Emirates

This document contains the draft summary of the OECD report on Benefit Realisation Management. The final report, which is the result of a year-long work conducted by OECD countries with the support of the OECD Secretariat, will be diffused as a Web report on the OECD Website (www.oecd.org) and may continue to be revised in light of comments and information received from a broader public.

SUMMARY

This report addresses several important issues: (1) why large ICT projects have such a low success rate in delivering on original ICT project goals (*e.g.* on time, on scope, within budget) and expected value (*e.g.* the contribution to organisational goals) and how to increase the success rates and value of projects; (2) the use of cost and benefit methodologies in OECD countries as a response to the pressure for greater value delivery; and (3) country examples of approaches to benefits realisation management by better incorporating cost and benefit methodologies into project management.

Along the way, the report argues that while benefits realisation management methods and plans are designed to improve the success rates of ICT projects, the jury is still out because the data on the impact of benefits realisation methodologies is not yet available.

Those countries that are currently undertaking benefits management initiatives¹ believe that these efforts will increase ICT project value and success by increasing accountability, improving project management and focus, and providing clearer, more standard measures and metrics. Results data is only beginning to trickle in, however, and countries are wary of sharing it because of the potential incentives that it may have on projects adopting these methodologies.

Why benefits realisation management?

Benefits realisation is, for the moment, still a relatively new response to a newly-identified issue, even if the toolkit of cost and benefit methodologies used have been around for a long time. As late as the year 2000, in an effort to appear modern, most OECD countries were still rushing to commit to putting all services online without regard to the cost or benefit of such initiatives. For many of these countries, 2005 was the year when this promise would be met. One of the results of the large amounts invested in support of these goals, however, was a number of high-profile ICT project failures. In other cases, countries put their services successfully online, only to find very few users and therefore little to no value generated. In many cases, these projects were supported by *ex ante* business cases though once the investment was approved there was not always follow-up as to whether or not the project lived up to expectations.

Information Communication Technology (ICT) is the third largest expenditure category in the public sector after salaries and rent, amounting to 7% of total government consumption expenditures in the EU15 and EU25². Increasingly governments are asking if expenditures on ICT and e-government initiatives are providing an *adequate rate of return on investment*. Answering this question is difficult as data on costs

¹ Of the 18 countries responding to the OECD benefits realisation survey in 2006, the following reported having formal guidelines for benefits realisation: Australia, Canada, Denmark, Mexico, New Zealand, Sweden, United Kingdom and the United States.

² eGovernment Unit, European Commission (2006) *eGovernment Economics Project (eGEP) Expenditure Study*.

and benefits of ICT-enabled investments are difficult to come by and there are no standard methodologies agreed upon that would facilitate comparisons across projects and countries.

A partial answer can be arrived at by determining how large a share of ICT-enabled initiatives deliver projects on time, on scope and within budget, and by measuring how well they achieve projected benefits. Data from both the public and the private sector seem to indicate that 30-40% of ICT enabled initiatives are delivered on time, on scope and within budget. Data from Australia on achieved benefit/cost ratios central government indicates that rates of return on ICT investments often are low or negative.

Much has been written on how the realised benefit to cost ratio or rate of return on investment (ROI) of large ICT-enabled projects can be increased. The most radical recommendation is to make projects smaller and provide results in a shorter time period by breaking initiatives into smaller projects.³ This reduces the complexity of the project, but more importantly, allows organisations to learn what technology can do, what project objectives should be and what changes are needed in the organisation in order to generate higher returns. A second recommendation is to select ICT-enabled projects that have a high financial return on investment to government as well as providing large benefits to users. This usually requires projects that are user-focused along with business process re-engineering and carries a greater potential risk of failure. This increased risk therefore needs to be managed through improved management techniques. A third recommendation is to develop management processes that will ensure the production and harvesting of benefits from ICT enabled investments. These new management techniques are sometimes referred to as *benefits realisation management methods* and include:

- Improving systems for collecting data on costs and benefits.
- Developing projects with a high rate of return (e.g. through business re-engineering, shared data and services).
- Improving management methods for selecting, monitoring and evaluating projects
- Replacing sequential ICT project management with an incremental, iterative approach where large, multi-year projects are broken down into smaller projects that are carried out iteratively.
- Making the business owner (*i.e.* programme manager), not the ICT department, accountable for realising an adequate rate of return on investment.
- Continued investment in personnel, organisational and process changes building on the new capability provided by the ICT investment.

Taken together, these efforts are part of a benefits realisation management approach which seeks to actively incorporate cost and benefit analyses into the project management process. Benefits realisation management is the process of realising planned outcomes by selecting projects that link to strategic business objectives and have a high benefit/cost ration, monitoring costs, outputs and outcomes, and evaluating actual results. This review of OECD country experiences with benefits realisation methods documents some promising approaches to improving returns on investment in ICT enabled initiatives.

Lesson learned from benefits realisation initiatives

A detailed study of responses to an OECD questionnaire made in April 2006 indicates that United Kingdom, Australia, Canada, and the United States seem to have made the most progress in developing comprehensive benefits realisation management methods to ensure that benefits are considered *ex ante* as part of investment decisions, applied *during* project implementation (in terms of realising an outcome or

² *The Hidden Risk to E-Government*, OECD Policy Brief, 2002.

benefits realisation plan), and then used to assess delivered benefits *after* the end of the project. However, all respondent countries are grappling with the issues of developing management methods for ensuring that ICT investments will deliver an appropriate level of benefits to government, to users and to other stakeholders.

Many methodologies are used for benefits management by central authorities for analysis of large ICT projects. Most studies use more than one method – usually at different review stages – and governments in several countries provide guidelines or toolkits to support the use of a range of methods that might be appropriate for projects. The standardisation of these methods through guidance and toolkits – whether mandatory or voluntary – is not only helping project managers who are still struggling with how to develop business cases, but are also providing them with the frameworks and tools to collect data that will be comparable across projects and across sectors. This, in turn, allows policymakers to make better informed, evidence-based decisions about whether to proceed with, modify or terminate projects.

Survey responses sent to the OECD from 18 of 30 countries⁴ showed that while at least half of OECD countries are engaged in cost and benefit analysis activities for ICT projects, only a few can be said to be combining these analyses in a benefits realisation management framework. Responses to the OECD surveys indicate that:

- Eighty percent of the respondents reported that they require *ex ante* cost/benefit analysis before deciding on a major ICT investment.
- Many respondents are moving towards providing guidelines and toolkits to encourage more standardised use of indicators and benefits realisation methodologies.⁵
- Project cost/benefit studies mainly use a few relevant indicators of costs and benefits that do not give a complete picture of major costs and benefits: studies tend to primarily consider costs and financial benefits to government in appraising projects and less often non-financial benefits to government or costs and benefits to users.
- Benefits realisation efforts can be both mandatory or voluntary: 8 respondents provide formal guidelines for benefits realisation, but only 5 require a benefits realisation plan.
- The greatest reported challenge to implementing a benefits realisation approach is the cultural change necessary

For the moment, benefits realisation is still at an early stage and is focusing on changing the mindset of ICT project managers to move from a focus on achieving deliverables to achieving overall outcomes. Crucial to these changes is the ownership of ICT projects by business process owners in order to completely integrate ICT projects with overall business objectives. There is evidence in the countries that have begun benefits realisation initiatives that a mind shift is occurring, but it is slow and not without resistance. Managing against outcomes is more difficult and riskier than a traditional output-oriented approach. Making business and ICT project owners work together to deliver common outcomes means that different cultures, mindsets and technical frameworks have to be accommodated and traditional boundaries defined by technical specialty have to be eliminated. Countries considering implementing a benefits realisation initiative should also take into account whether an existing culture of cost and benefit analysis

⁴ See also Table 4 and Appendix D.

⁵ 13/18 provide formal guidelines for cost/benefit analysis; 10/18 provide formal procedures for monitoring large projects; 8/18 provide formal guidelines for benefits realisation.

exists and if not, how one can be developed. Benefits realisation initiatives cannot succeed without an understanding of outcome and performance management approaches and accountability structures that build in incentives for contributing to overall outcomes rather than just programme deliverables.

Finally, a cultural shift towards greater transparency is needed in terms of publicising the results of benefits realisation initiatives. While initiatives are geared towards responding to a number of existing problems (*e.g.* ICT project failure and low rates of return), there is not yet evidence to prove the impact of this approach. The standardisation of measures should ultimately enable better government-wide and longitudinal data by providing a common set of analytical tools and indicators. Countries will have to first make this data available in order to figure out what works. Such a comparison of information across OECD countries would benefit e-government projects, and the resulting outcomes, at all levels of government.

Next steps

The OECD can contribute to an improved understanding of whether or not benefits realisation management initiatives actually work by doing analysis in three areas: 1) achieving a consensus on what is an e-government cost; 2) analysing how benefits realisation methodologies can be applied to shared services; and 3) collecting and comparing information from benefits realisation analyses on different rates of return for different types of e-government projects (*i.e.* automating processes, re-engineering processes, and sharing processes).