Business Outcomes Management: The Undervalued Business Priority

It’s not enough to say you’re focused on achieving business outcomes. You have to actually run your business that way.

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There has been a lot of focus recently on shifting the focus of portfolio management from project outputs to business outcomes. The theory is that by focusing on the reason why a project was initially approved, the required outcomes and performance will improve, and there is a greater chance that the organization’s goals will actually be met. It’s a solid theory, but organizations can’t simply ask project teams to prioritize business outcomes and expect things to become significantly better. Business outcome management requires a strategic approach that spans all elements of how an organization plans, delivers and validates project performance. That’s what we want to look at in this white paper. It’s also something that’s sorely needed, as Forrester noted in a recent report: “When the customer is at the center of your business strategy, meeting their expectations is critical for achieving revenue growth, yet companies struggle to determine if the strategies they’ve put in place have brought the results they predicted.”

Today’s Business Outcome Management

Business outcome management requires a comprehensive approach to defining, managing and validating levels of performance from an organization’s investment portfolio. At the start of any planning period, the goals and objectives for the next business cycle are defined. Most commonly these are the targets that are set in conjunction with the board of directors and investors for the next fiscal year. They will represent the expected gains in effectiveness, efficiency, market performance and, of course, financial performance. At the same time, an investment budget will be approved that represents the funds allocated to achieve those collective goals.

Strategic planning is focused on defining and selecting the initiatives to allocate that investment budget in order to achieve the goals. In today’s world, that’s a complex activity that requires consideration of the inevitable shifts in what is required as a result of competitor action, technological advancement and customer expectations. All of these will cause the goals to evolve during the execution window and will also impact the ability to deliver against those goals. This has led to the evolution of adaptive planning principles among more forward-thinking organizations and leverages techniques like conditional funding decisions (to allow for adjustments closer to the start of planned work) and the use of contingency funds.

To be even partially effective, decisions about which projects to invest in have to consider the return each project will deliver—the expected business outcome that is being “bought” by committing funds. The problem many organizations face is that they have no clear visibility into that return. The benefits may be too far in the future to allow for reliable projections, they may not be tangible or specific enough (how do you measure net new revenue created by a new feature on an existing product, for example?), or they may not be directly attributable to a single project but rather as the result of a series of evolutions.

As a result, business outcomes are rarely more than a line item for expected benefits in the business case. These are so common and so generic, we can list some examples with every confidence of their use in multiple organizations:

- $1 million in net new revenue to be achieved
- Market share will increase by 10 percent
- Costs will be reduced by 5 percent
Even ignoring the possibility of overly optimistic entries, the assumptions required at the early stages of the project process are significant. Certainly, the claim of a specific dollar or percentage value is little more than guesswork; a range of possible values would be more appropriate. Confidence in such benefit targets requires significant validation of assumptions and updates to the forecasts during the project delivery process and once real benefits begin to occur, and that rarely happens. Combined with the inevitability of an evolving operating environment that impacts what can be achieved and what is required, these business outcomes are little more than guesses. Yet in many organizations they form the entirety of the outcomes projects are expected to deliver and the performance baselines business owners are expected to achieve.

This is an unsustainable approach that will continue to result in flawed performance and a lack of focus on the measures that will truly deliver an organization’s goals. Organizations must develop and implement a more effective business outcome management approach.

**Elements of Effective Business Outcomes**

A comprehensive business outcome management approach requires three basic elements:

- Ongoing and accurate setting of outcome targets and measures
- Effective management to ensure work remains aligned with enabling benefits
- Validation, variance management and accountability for actual performance against targets

Let’s look at each of these to understand how an effective strategy can be developed and implemented.

When an organization has defined its strategies, it will establish required business outcomes that align with those strategies. For example, if the focus is on expanding market share and revenue, it will establish objectives for market share percentage and annual revenue that must be delivered in the next reporting period. Business cases are then developed for proposed projects to contribute to those objectives. Within those documents, the anticipated costs and benefits will be included to provide a preliminary indication of the return on investment the project proponents expect to achieve.

Let’s suppose we have a company that’s focused solely on increasing revenue. It is investing in new versions of existing products and adding new products, all in the expectation that revenue will increase. It has set a goal of $5 million more in revenue next year than it achieved this year, and to achieve that it is planning on approving projects that, if they are successful, will result in $6 million more revenue. That provides a safety margin and also allows for further gains through organic growth in business.

However, at this point in the process there are still a significant number of unknowns on both the cost and benefit side of the ledger, making such projections little more than educated guesses. That’s OK—it’s the best that is available at this point. But there needs to be a commitment to refining those estimates and determining measurement criteria before the organization becomes too invested in an initiative that cannot generate the expected returns. That’s the piece that is commonly missing.
The first step is to ensure that an approach to measurement has been established—how will the organization determine that $6 million has been achieved? The metric category may be easy; in our example, it’s simply more money coming in. The specific measurement may be much harder, however. A new product in a new market can easily claim that all revenue gained in that space is attributable to the product; in other cases, it may be much harder to differentiate revenue driven by the project from revenue that would already have been achieved. How does the company know that revenue growth in an existing product occurs as a result of the new features that were added? Could the same growth have occurred simply from market growth or sales efforts?

This is where the role of proxies becomes important to measure performance. A proxy is a substitute that takes the place of what we are trying to measure because it is easier to observe, quantify and/or manage. If we achieve the performance proxy, we can be confident that we have achieved the business outcome we are looking for.

Let’s look back at our example company that’s trying to drive more revenue. Instead of focusing on detailed measurement of every dollar of revenue in existing products to understand where it has come from (that may be important to understand the customer, but not as a measurement of project performance), the baseline revenue can simply be increased as an effective proxy. So, if one of the company’s products achieved $10 million in revenue last year and the new version of the product is expected to increase revenue potential by 10 percent, then the revenue baseline is adjusted to $11 million. The $1 million lift is what is entered into the business case, along with the proxy that will be used to measure it. There may then be an additional overlay for incremental improvements that the sales and product teams are expected to deliver, and this overlay is applied on top of the revised baseline.

There are a number of advantages to this approach. First, the cost of measurement is significantly reduced, which in turn improves the return on investment. It also serves to help avoid any overly optimistic benefit claims, especially when combined with the element of accountability, which we will look at later. Business department owners who know their claimed benefit will be added to their target will be a little more conservative in the claimed contribution they will be able to achieve.

Proxies don’t eliminate the need for benefit assumptions to be validated and adjusted as more information becomes available; the organization must still ensure it is investing in initiatives that are capable of delivering the required results. That is not a singular exercise—the evolving operating environment requires organizations to continuously reassess whether their goals and objectives are appropriate, whether the targets are reasonable and whether the projects in progress and proposed are capable of delivering the required benefits.

Organizational leaders are accountable for understanding the changes that are occurring in the operating environment as a result of competitor or supplier actions, technological advancement and shifting customer expectations. They must then translate those changes into adjustments to the goals and objectives to ensure the organization is working toward performance that is relevant for the current situation. The ability to do this effectively and efficiently is known as business agility, and it is a crucial discipline in today’s business world.
Business agility requires the organization’s portfolio management function to play a critical role, and that brings us to the second element of business outcome management—ensuring work remains aligned with achieving the benefits. Just as organizational leadership is monitoring the external environment to see whether goals and objectives need to evolve, so portfolio management is monitoring the collective set of approved projects to ensure they can still achieve the benefits expected.

As you would expect, the ability to deliver results is a key differentiator of business performance. The same Forrester report referenced earlier reports that 87 percent of high-performing organizations have what Forrester considers to be “sufficient value delivery maturity,” compared with just 5 percent of underperformers.

We noted earlier that assumptions used to develop business-case benefit projections need to be validated, and portfolio management must ensure that process occurs for all initiatives that are approved for inclusion in the portfolio. This will require a combination of project-level planning and analysis by the ultimate business owner. To go back to our revenue-focused example company, as planning of projects continue, the portfolio manager needs to ensure that the revenue forecasts in the business case are still reasonable. The product owner for each initiative will need to review the project plan and confirm that he or she can still commit to the benefit signed off on in the business case if the project will deliver what it says.

The project team must also validate the costs. While our example is focused on a company delivering more revenue, that revenue cannot come at any cost. The organization may well cancel a project and divert the investment money elsewhere if the return on investment isn’t good enough. When execution work for portfolio projects is scheduled to start, there should be a second approval decision to confirm that the project is still capable of delivering the expected benefits for a reasonable cost. This analysis of costs and benefits will be a key element of that decision.

Portfolio management then continues to monitor the ability of projects to achieve expected business outcomes throughout the execution phase. This monitoring will include input from leadership regarding any further business agility driven shift in objectives, and from the business teams who will ultimately be accountable for delivering those results. Leadership’s monitoring of the operating environment may drive significant change at this point. If one of our example company’s competitors launches a product that fails badly, there may be a decision taken to increase target revenue to $7 million more than last year. That reflects the increase in available spend from customers who would previously have bought from a rival. To take advantage of the opportunity, leadership may ask for projects to be delivered more quickly, even if that means spending more on them or reducing features—the business benefit focus means doing what it takes to access the additional revenue that has become available.

The portfolio manager’s own analysis will focus on variances in execution, which may result in changes in the ability to achieve expected results. Project managers and their teams should be focused on ensuring the outputs of their projects have the best chance of achieving the expected outcomes. This is the core of the recent shift in focus toward outcomes that we noted earlier, but it’s not something that can always be achieved.
Problems in project delivery may result in delays, cost overruns and/or feature loss, which will have an impact on the total benefits that can be achieved. Asking project teams to make change decisions that minimize the impact on benefits assumes that they have enough information about that impact to make such decisions, and that’s not always the case. Even when the benefits owner is engaged in the process, there are still no guarantees that adjustments will be successful; there are simply too many unknown variables.

This makes the final element of business outcome management the most critical: validation that benefits are occurring. We discussed earlier that proxies can be used to avoid the need for detailed measurement or to alleviate problems with a long period of time before benefits fully accrue. However, the business area owner responsible for achieving those benefits must still be looking for early indicators of whether expected business outcomes are being achieved. This isn’t an exact science, but they must be looking at things like customer response, early sales figures, industry reviews, etc. to gain insight into how a new customer offering is being received. For internal and efficiency projects, the focus should be on employee reaction, error rates, processing times and other similar measures.

In our example company, product owners should be looking at sales reports and comparing them with the same period last year. They should be extrapolating the gains to see whether they are on track to deliver the increases expected. If they are short, there may need to be actions taken to address that shortfall quickly; at a minimum, they must increase monitoring and consider recovery options. For new products, the owners should be comparing sales against forecast to see whether their full-year projections are on track, again taking steps to understand and address variances.

The business owner responsible for the department or area that the project has been released into must not only be held accountable for delivering the ultimate benefit, but also for monitoring these early indicators and identifying any potential variances that require action to be taken. Accountability for taking those actions lies with portfolio management, who must look at other existing portfolio initiatives or consider using contingency funds to create new projects to address any shortfalls between expected and actual benefits.

**Integrated Business Outcome Management**

Many organizations already conduct aspects of these business outcome management elements as part of their current planning and portfolio management processes. There is increasing awareness of the importance of business agility, and part of building an agile enterprise is the ability to adjust and adapt not just the goals but the work being done to achieve those goals. However, there are few organizations that take a truly integrated approach to managing their business to optimize business outcomes, and that’s the recommendation we want to make here.
Managing the entire process from the start of business planning to the achievement of the ultimate goal as a single approach geared at optimizing business outcomes helps ensure that work is consistent and complete throughout the entire process. When business cases exist as standalone items, there is no inherent structure keeping things aligned—the project is approved based on the cost and benefit estimates in the business case, which is then promptly ignored. There needs to be accountability supported by tangible and effective management approaches to ensure that benefit projections are updated to reflect the current reality and that variances are addressed quickly and decisively.

This requires a committed leadership team focused on delivering innovative solutions that push the edge of what can be achieved, constantly looking to optimize performance—especially in the revenue-focused categories that offer a potentially limitless upside. Those leaders must deliver a culture of business agility backed by a willingness to act decisively when necessary, and they must hold individuals and teams accountable for the commitments they make. Portfolio management must be an effective, strategic execution function focused on delivering work that is always aligned with current goals.

When all of these elements are in place, the organization can talk credibly about focusing on business outcomes. Without these elements, it is simply expressing a desire to do so.

About the Author

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