

Benefits from investments in public sector business change

Many benefits claimed in business cases are really just additional costs.

Value creation

However, it is true to say some benefits directly contribute to improving services provided to citizens. For example a price reduction by a supplier with no other changes to quality, delivery timescales or other terms of business and no knock on effects on any other part of the enterprise which makes more funds available for services. Similarly, increasing the price of chargeable services provided by the enterprise which results in no reduction in the take up of these services would increase revenues and so enable more services to be made available to citizens, so increasing value to them.

Benefits

But business cases contain all manner of different types of benefits, for example:

- increasing productivity and efficiency,
- enhancing image,
- improving the quality of services,
- providing better information,
- improving employee morale,
- enhancing the infrastructure, and
- legal, regulatory and contractual compliance.

It is worth considering each of these.

Increasing productivity and efficiency

This only contributes to value if costs actually diminish, e.g. by reducing staffing levels and saving salaries and/or more or better quality services are provided to citizens at proportionately lower costs.

Likewise, if assets are sweated, e.g. to extend the hours during which services are made available, then that only increases value if more services are taken up without increasing associated costs like staff and maintenance disproportionately.

If services are re-designed so that they cost less to provide but are consumed in the same quantities, that would increase value as more funds would be available for other services.

Note that in each case something more, e.g. dismissing people, changing working patterns, needs to happen to ensure value is created by reducing actual costs and/or increasing revenue

and/or improving services. Improving productivity/efficiency alone is not enough.

Enhancing the image

This only contributes to value if in some way, the services to citizens improve. An example might be multi-cultural inclusiveness which would encourage more citizens to use services of which they might previously have been unaware.

If there are on-going media expenditures, e.g. to remind people to submit tax returns on-line, then these expenditures are not really investments but costs of providing the services. Increasing such expenditures would be an investment, so the extra spend needs to be linked to increasing the quantity and quality of services used or the revenue generated for other services.

Improving the quality of services

This depends on two factors:

- a) the cost of providing different levels of service; and
- b) the take up at different levels of service.

What matters is not improving the absolute level of the quality of services, but providing that level of service which maximises the ratio of b) to a). It might be that reducing the level of customer service might have little effect on take up or that the investment needed to improve the quality will not increase the take up sufficiently to justify that investment.

Providing better information

To whom is this going to be provided and what are they going to do differently once they have it? This is similar to the points in a) and b) above, e.g. what information is necessary and sufficient to create additional value? Note that providing the information only increases costs. The value comes from what is done differently by people once they have that information.

There must be some upper limit on what information is to be produced (and so the cost of producing it), rather than just "better".

Improving employee morale

For many employees, shortening working hours and increasing pay rates would improve their morale (at least in the immediate term). But again, a balance has to be struck between the

cost of labour, including recruitment, induction, training, salary, benefits, expenses, supervision, release etc. and what those employees contribute towards value.

Poor morale might result in a high attrition rate and so high recruitment, training and other one-off costs. Hence there might be a case for incurring extra costs but the benefits of doing so must exceed those costs for value to be created.

Enhancing the infrastructure

On its own this is far from sufficient justification to claim it as a benefit.

How will value increase by improving the infrastructure? It is quite likely, if it has any merit, that enhancing the infrastructure contributes to one or more other benefits and they, in turn, contribute to creating more value. For example, better equipment might help some employees to be more productive or improve their morale. As infrastructure has to be used by someone as part of the process of creating value, then the key point is: who will use the improvements to achieve what?

Compliance

Where the enterprise functions within a regulated activity then such regulatory compliance, of itself, is just a cost of being involved in that activity and not an investment; just as would be the case with legislative and contractual compliance.

However, it might be that other benefits could arise from the work needed to achieve compliance, e.g. internal business practices could be streamlined to make employees more efficient or early compliance might enhance the image of the enterprise.

Intermediate benefits

All of the benefits listed above are what some call "intermediate benefits", i.e. of themselves they do not directly contribute to extra value, i.e. more or better services for citizens. Further activities are needed to follow-on after them to create that value by increasing income and/or reducing on-going costs and/or improving services.

Some argue that the linkage between these intermediate benefits and value is unclear or too

complex to assess but enterprises employ line managers, function managers, service managers, HR managers and many others besides who should have an in-depth understanding of how their functions contribute to value. Why is their expertise neglected in establishing that linkage?

Investment portfolios

Some categorise their investments based on the above types of benefits. This is often because among the executive each of these has a spokesperson, e.g. the Communities Director, HR Director, IT Director etc. This leaves the executives vying among themselves for their share of the investment pot and it fails to provide a way of ranking all investments on the basis of how each contributes to value creation, which is the ultimate objective.

This is one of a series of papers on Grosvenor's Value Management. Others cover:

- vision,
- investments,
- capabilities,
- business change and
- value.

Together they describe the journey from envisioning the future state of the enterprise to bringing it about through the selection and management of investments in business change.

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