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Program value realization

A six-part framework for keeping transformations on track

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Executive summary

HealthCare.gov recently completed the second wave of Affordable Care Act plan enrollment, with all signs indicating that most of the program's early problems have been addressed. That said, the program's launch in 2013 remains an object lesson in how transformation efforts can go wrong. This instance was a highly public debacle, but it is not the only one. Across industries, organizations continue to struggle to implement change effectively. Often, the struggle has a compounding effect, leading to missed milestones and budget overruns, along with a significant drain on management focus. Companies cannot avoid this issue, but they can effectively manage it. As business becomes more complex and interconnected, companies must respond to changing market conditions — and implement larger and increasingly cross-functional initiatives that span the organization. This trend is particularly true in healthcare, where organizations are now trying to adapt to a highly dynamic environment. Given these factors, the traditional project management office approach is no longer sufficient.

To successfully implement transformational change, companies need a more advanced approach that is built on value management (*What is the intended value for the initiative?*) and a capabilities-driven strategy (*What capabilities are required to achieve value objectives?*). Based on our experience in implementing change efforts across a range of industries, we believe the solution is program value realization (PVR). PVR includes six components: (1) program capability planning; (2) value management; (3) operational model and governance; (4) sourcing management; (5) program management; and (6) complex decision support. When connected to a capabilities-driven strategy,[1] these six components provide organizations with a significant advantage in implementing transformational change by ensuring that initiatives meet their objectives for scope, schedule, and budget.

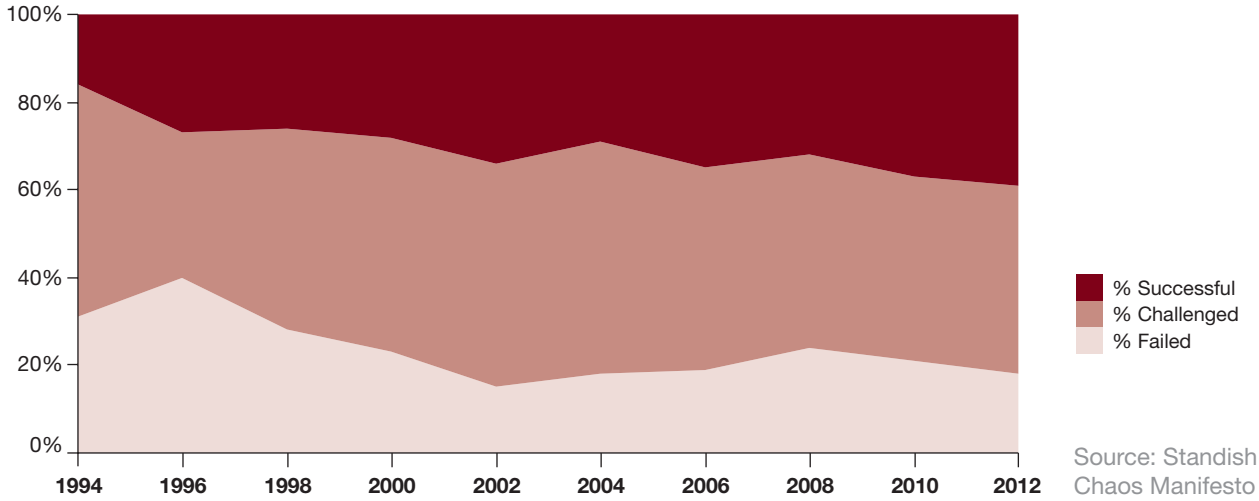
Lessons from the launch of HealthCare.gov

In a highly dynamic business environment, companies often implement large-scale transformations to remain competitive. Within healthcare, established business models are being upended by new technology, the imperatives of the Affordable Care Act, demographic shifts, growing cost pressure on providers, and other factors. Yet the statistics on successful transformation efforts are dismal: Across all industries, more than half fail outright or struggle to meet their objectives (*see Exhibit 1*).[2]

Exhibit 1

About 25 percent of transformation efforts fail, and another 45 percent do not deliver their full target value

Transformation effort outcomes, 1994–2012



Source: Standish Group, Chaos Manifesto 2013

Compounding the problem is that the complexity and cost of transformation efforts are on the rise, which leads to greater implementation challenges and costlier consequences when initiatives miss the mark.

The flawed launch of the federal government's HealthCare.gov website is the most recent example — and among the most highly publicized. Although it was a public-sector initiative, it offers a valuable case study for any organization.

As several detailed analyses have found, the project lacked a central entity with end-to-end responsibility for program strategy, project management, and execution. Among other missteps, the Centers for Medicare & Medicaid Services (CMS), which developed the HealthCare.gov site, had no overall coordinator for the more complex components of the integration. As a result, several of the platforms and vendors were managed separately, causing interoperability problems.[3]

The lack of coordination extended to prelaunch testing, which wasn't sufficient to model the large number of people who tried to use the system on the go-live date. Due to a lack of server capacity and bandwidth, thousands of users could not even initially create an account, let alone choose an insurance product. For several weeks after the launch, the site was plagued by slow response times (about eight seconds for each data entry point), high error rates (6 percent on average), and low system availability (just 40 percent at launch).[4]

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After a congressional inquiry and heavy scrutiny from media pundits, CMS changed leadership for the program — at both the executive and board levels — and installed technical monitoring systems that allow managers to track the site's performance and quickly diagnose problems.

As a result of these efforts, the site eventually hit its targets for overall sign-ups, with an uptime performance greater than 90 percent and error rates that are now consistently below 1 percent. The site now supports more than 3 million visits a day, with as many as 130,000 concurrent users.[5] However, the process of getting to this point was circuitous and expensive. Because of the implementation problems, costs far exceeded initial estimates.[6] The problems also created tremendously poor publicity for the government and cast a shadow over the entire health reform effort.

Since many healthcare organizations are likely to undergo similar transformation efforts in the coming years, the experience of

HealthCare.gov suggests that the potential for similar failures is high. We believe that the root causes of the launch failure, which resulted in additional expense, effort, and time, could have been avoided if the government had used advanced program management techniques.

A new approach: Program value realization

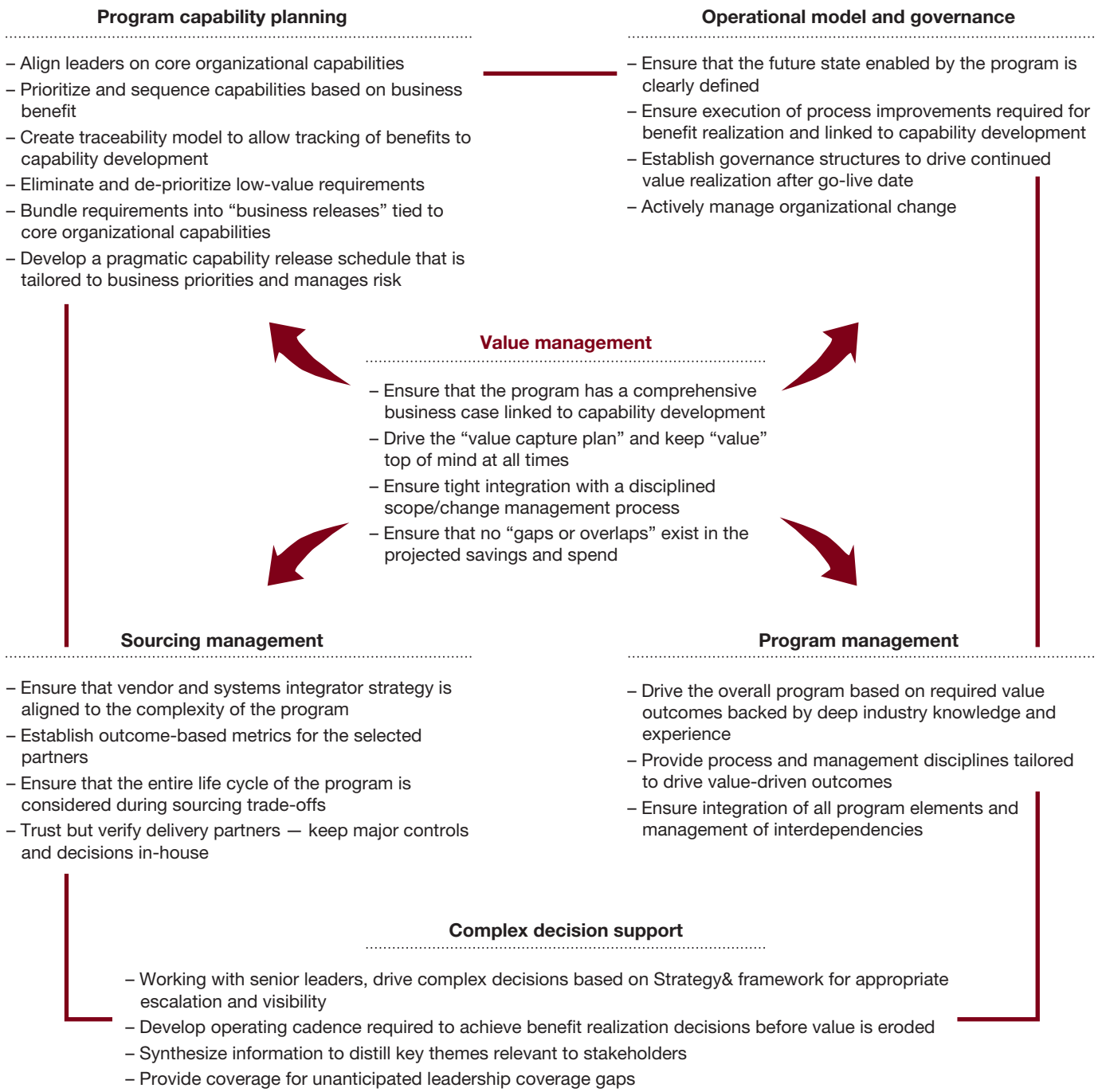
Traditionally, program management focuses on balancing trade-offs among scope, schedule, and budget, overseen through a program management office (PMO). However, this approach is often limited, as it implies that one of those three elements must be subordinate to the other two. It also lacks the critical capabilities needed to capture value and drive change without sacrificing project scope, schedule, or budget. If large, mission-critical implementations are to realize their maximum business value — and manage the complexities of agile software and Web-scale IT — organizations must go beyond the fundamentals of project management.

For more than a decade, we have helped large and small organizations implement change efforts of varying scale. Based on that experience, we know that a comprehensive, results-based approach — called program value realization (PVR) — can help organizations implement transformations successfully. Fortune 100 companies across the energy, transportation, and aerospace sectors have applied this approach, as have several healthcare organizations that have undergone recent transformations.

Broadly, PVR includes six components, which together help organizations manage projects on an end-to-end basis and effectively translate strategy into execution (*see Exhibit 2, next page*).

Exhibit 2

The six PVR components



Source: Strategy& analysis

Program capability planning

Before a transformation effort can succeed, the enterprise must understand the capabilities it will need to bolster — or create — in order to deliver the intended change. We define capabilities as key strengths that set your company apart from its rivals. Each capability is built on a combination of processes, tools, knowledge, skills, and organization, all focused on meeting a desired result. This first component of PVR requires that project managers ask a key question: To achieve our objective, what do we need to be good at? Once an organization has defined the capabilities, it maps the project plan directly to them.

For example, as part of the HealthCare.gov project, the government could have determined that the needed capabilities lay in understanding the complex offerings of health insurers and presenting them in a user-friendly manner so consumers could evaluate offerings on a comparable basis in order to make the best choice for their specific situation.

Value management

The second component of PVR requires that a company identify the value it intends the new capabilities to deliver. The value could be monetary value, but it could also be time, efficiency, or any other source of improvement. Also, it need not accrue directly to the organization (though it likely will in many cases). Critically, there must also be a clear mechanism in place to measure value. In this component, project managers must ask, How will we know how we're performing against our objectives?

The value component is the philosophical difference between PVR and traditional PMO techniques.

Although all six components are important, the value component is the philosophical difference between PVR and traditional PMO techniques. Once organizations begin a transformation effort and become enmeshed in daily and weekly obligations, it's easy for them to lose sight of the main objective. By applying a value lens, organizations can see beyond the tasks, deadlines, and milestones of the project plan. The PVR methodology prioritizes the execution of activities based on the value delivered to stakeholders (along with subordinate factors like the speed of implementation and proof of concept).

For the HealthCare.gov website, the value was in simplifying the process of holistically comparing insurance products and maximizing accessibility to insurance so that consumers could make the right choice. Without the site, a consumer could theoretically contact individual companies and get enough information to select a policy. If the program managers had defined the value at the inception, they could have focused on customer acceptance testing and proactively

adjusted technical requirements based on testing results in order to reduce the rate of end-user errors on the go-live date.

Operational model and governance

The standard PMO toolbox includes many project management tools, such as road maps, reporting techniques, resource tracking, and issue and risk identification. We recognize that many programs already utilize these tools, but a proper operational model for the program is pivotal to ensure clear guidance at all levels. This operational model drives progress by establishing roles and decision rights to decrease ambiguity.

The PVR approach establishes an operational model that aligns value and capabilities to company assets and resources. For example, once a company has defined its capabilities and segmented them by the value they will deliver, it may opt to put its most skilled workers on the highest value-add components of the program. It might lower the risk threshold for those initiatives — possibly through redundant efforts and conservative time lines — to ensure that they meet their objectives. And for secondary and tertiary aspects of the program, the company may be willing to use workers with lower-level skills or less experience, or even to outsource these capabilities.

PVR requires that organizations use a more systematic way to manage key suppliers.

In addition, a system that escalates problems and risks — combined with a strategy to resolve them — is critical to the program operating model. Preserving the power of decision making and maintaining the independence of the program manager to provide verification and validation are necessary for successful governance. As a result, organizations can mitigate common issues such as delayed implementation and opaque lines of decision-making authority.

In the case of HealthCare.gov, CMS would have benefited from an operating model that distributed ownership and control across the right entities, so that business executives could understand how technical requirements relate to delivery of expected business value and IT implementation owners could prioritize accordingly. Establishing this operating model would have helped address HealthCare.gov's lack of oversight, ownership, and accountability.

Sourcing management

Fundamentally, PVR requires that organizations use a more systematic way to manage key suppliers, particularly IT vendors, which are increasingly important in large-scale transformations and impact multiple business units during the process. Establishing "strong form"

sourcing management requires a policy of "trust but verify" regarding delivery partners. Among other things, that entails preventing the commingling of incentives — for example, a tertiary vendor willing to provide insights and strategies only if they lead to additional business — which can create suboptimal outcomes. Regarding costs, healthcare organizations need to coordinate internally at the outset and throughout the transformation to ensure they are capturing value through sourcing. There are a number of tools that organizations can deploy to ensure they are making the right trade-offs between cost and value when dealing with suppliers (for example, evaluating the total cost of ownership for new systems, as opposed to merely the up-front purchase cost). Category-specific metrics ensure that leaders are making decisions based on quantitative analysis.

In the long term, however, sourcing is about more than simply wringing out costs wherever possible, which is an understandable impulse but potentially shortsighted. By building and sustaining the right relationships with suppliers, companies can partner with them to innovate, continuously eliminate mutual costs, and improve performance — leading to potentially greater gains over time.

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Program management

The fifth component of the framework, program management, establishes the discipline required to ensure that the transformation stays on time and on budget. The right approach focuses on leading indicators of program status, rather than lagging indicators, and it gives leaders the information they need to make fact-based decisions driven by value, instead of letting other considerations cloud the analysis. In addition, rather than being merely a policing mechanism, the PMO should be a high-integrity partner to the leaders of the initiative, with the ability to give leaders clarity regarding the current status of the effort, looming challenges, and specific steps they can take to mitigate issues. A critical aspect is timing — the PMO should be designed for agility, so it can generate analyses for program leaders in hours, not days. Equally important, it should be able to prioritize issues for executive leaders, rather than drowning them with irrelevant information or treating every problem as equally important.

Complex decision support

Organizations often begin transformations without enough information. They may not truly understand the dynamics at work in their industry. They might underestimate the complexity of the products or services under consideration — and thus the technical work required to improve

them. Or they may not grasp the disciplines needed to successfully deliver programs. The sixth component of PVR, complex decision support, is a wrapper that overlies the other five, and it is intended to avoid these situations. This component brings industry, technical, and program aspects together and clarifies their inherent complexities, enabling executives and project managers to make the right decisions for both the program and the organization.

Ideally, this role is performed by an advisory team acting as an "honest broker" that lacks conflicting interests and can provide honest, objective feedback to program leaders. The team ensures that the organization, vendors, and systems integrators cooperate and operate within the established scope and structure of the program. Overall, it creates an end-to-end program view; assesses high-risk milestones, activities, and deliverables; and allocates extra time and resources (as needed) into the scope, schedule, and budget. More fundamentally, it mitigates any unnecessary surprises and facilitates a successful delivery that meets the business case.

In the CMS example, the project leaders would have benefited from a team that had this kind of oversight authority and could make swift and complex decisions regarding areas such as stakeholder engagement strategies and plans, platform architecture, assessing go/no-go criteria, and handling the scope and timing of mitigation measures.

Putting it all together

These six major components come together to provide a holistic approach to maximize return on investment and achieve the business case for the program. PVR changes the game by fostering independent assessment and management of programs on behalf of the business, protecting the best interests of the organization, and realizing maximum value. It should span the entire program life cycle, including the following aspects:

- Program/PMO initiation: ensuring consistent and accurate status reporting and risk management for the new program
- Program value assurance: independently assessing the program status at major milestones and determining whether it is on track to deliver the intended value
- Program diagnostic and rescue: rapidly identifying problems and defining the best go-ahead strategy
- Program competency support: helping to transform program management processes and personnel to best in class

Once the plan is built and in execution, all stakeholders, from leadership to implementers, can be expected to roll up their sleeves and get their hands dirty. Yet it is the foresight and planning that are essential to controlling cost and mitigating issues, risks, and gaps.

Case study

A large U.S.-based health organization wanted to transform its claims operation into a national shared-services model with a common technology platform. The goal was to achieve efficiencies through scale and standardization. The rollout would take place over several years, but after the first implementation phase, the company ran into significant problems. Among other issues, the IT vendor had problems delivering the product on time, leading to escalating budgets and slippage on implementation time lines. Worse, the vendor decided to retire the platform, limiting the potential for needed future upgrades.

In response, the company adopted a PVR approach, broken into three phases. During the first phase, it developed a clear, objective baseline of the new claims program, along with risks, gaps, and challenges along functional, technical, and financial dimensions. The company used a benchmark-based approach to estimate the program's actual budget, along with high-level remediation steps.

Next, the company compared its current IT platform with another option, and weighed the cost of switching midstream. As a result of this analysis, the company decided to switch, requiring a 90-day transition plan and the reorientation of more than 300 employees.

In the third phase, the company used a PVR model to implement the change. It developed the operating model, defining the organizational structure, roles and responsibilities, and governance needed to support the new program. To define the value to be captured, it developed a business case, including detailed spending across different cost components and the operational efficiencies the company would generate, which was ultimately presented to the board of directors. Finally, the company developed a program management office, with a dashboard based on clear KPIs to objectively measure and report implementation progress. To address complex decision support, it created a SWAT team that could address the program's most critical issues with senior leaders.

Conclusion

At a time of growing complexity and a mandate for change in many industries — particularly healthcare — organizations must get better at delivering transformation programs. The PVR framework offers a clear six-part structure to improve the odds of success. By ensuring that these components are in place at the beginning of a transformation, companies can ensure that they keep their projects on track to deliver their objectives and better position themselves for success over the long term.

Endnotes

[1] For a summary of the concept, see "Capabilities-Driven Strategy: Gain the Right to Win," by Paul Leinwand and Cesare Mainardi, Strategy&, Dec. 3, 2014. For a more in-depth analysis, see *The Essential Advantage: How to Win with a Capabilities-Driven Strategy*, Harvard Business Review Press, 2010.

[2] "Chaos Manifesto 2013: Think Big, Act Small," Standish Group, 2013.

[3] Alex Woodie, "The Hyperscale Lessons of HealthCare.gov," EnterpriseTech, Apr. 4, 2014.

[4] "HealthCare.gov Progress and Performance Report," Centers for Medicare & Medicaid Services, Dec. 1, 2013.

[5] "HealthCare.gov Progress and Performance Report," Centers for Medicare & Medicaid Services, Dec. 1, 2013.

[6] "HealthCare.gov: Ineffective Planning and Oversight Practices Underscore the Need for Improved Contract Management," U.S. Government Accountability Office, July 30, 2014.

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