

Investment Logic Map

Investment Management Guideline

Version 2.0

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Department of Treasury and Finance

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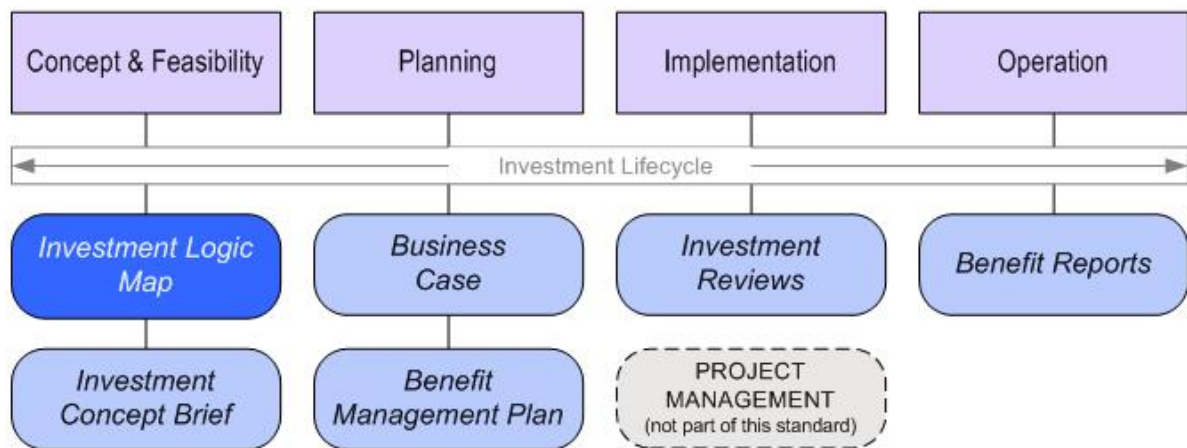
1 Introduction

1.1 The Investment Management Standard

Investment management establishes a set of simple practices that allow an ‘investor’ to clearly define the reason for an investment, shape the solution that will best respond to the need and track the delivery of benefits throughout the investment lifecycle. The adoption of these practices has been shown to drive investments that are more effective at implementing policy and to reduce the risk of investment failure.

The current Investment Management Standard (IMS) defines six practices that are documented in the form of guidelines as depicted in Figure 1. This guideline relates to the investment logic map.

Figure 1: The Investment Lifecycle



1.2 The purpose of this guideline

One of the primary reasons that investments fail is that the basic logic for the investment was either not understood or was not shared by all the parties that needed to know. The common cause of this is that the investors themselves were not clear as to what was driving the investment decision or what benefits the investment could reasonably be expected to deliver. The development of an investment logic map provides the foundation logic that is used throughout the investment lifecycle.

2 How to complete an investment logic map

2.1 Participants

An investment logic map is developed in a two-hour structured and facilitated workshop with the following participants:

Investor	<p>Knows the business problem to be solved, will be responsible for making the decision to invest and will ultimately be responsible for realising the expected benefits</p> <ul style="list-style-type: none"> It is critical that the primary investor is present and is the key participant at the workshop The investor might also be supported by one or two subordinates who may be involved in the problem (or opportunity) and its resolution.
Solution architect	Has responsibility for defining what needs to be done to provide the best response to the identified problem.
Facilitator	Is accredited to facilitate the development of Investment Logic Maps

The ideal number of participants is 3 to 5. For particularly complex investments it might be necessary for up to 10 people to be involved.

2.2 Process

2.2.1 Before the workshop

The participants should prepare for the workshop by considering what the drivers are for the proposed investment. No documentation needs to be prepared or brought into the workshop.

2.2.2 At the workshop

Setting the scene

After introducing the individual participants the facilitator will set the scene for the workshop by providing expectations and advice along the following lines:

Duration	<p>The workshop will conclude at the end of 120 minutes.</p> <ul style="list-style-type: none"> If an 'investment story' cannot be developed in that time the assumption is made that either the investment had relatively little merit or that business need was not clear
Role of facilitator	<p>The facilitator is a storyteller whose role is to extract the best investment story that is achievable.</p> <ul style="list-style-type: none"> The facilitator needs little or no understanding of the context of the potential investment before the workshop. This is assumed to be in the heads of the workshop participants
The need to challenge	<p>The facilitator will challenge everything, particularly the drivers of the investment and the benefits that the investment expects to deliver.</p> <ul style="list-style-type: none"> Failed investments often result from a lack of clarity as to what was the

	<p>reason an investment was required. Typically people have a clear view of what needs to be done but little understanding of why</p> <ul style="list-style-type: none"> • Benefits can only be claimed where key performance indicators (KPIs) can be identified that are a valid indicator of the benefit and that will be only delivered as a result of this particular investment.
Critical role of the primary investor	The primary investor is the critical participant at the workshop. This person will be the key workshop decision maker.

Building the Logic Map

The 'story of the investment' that will be produced depicts the following five elements and their relationship to one another on a single page.

Figure 2: Investment logic map's five elements



Whilst mapping these elements, the following rules should be applied:

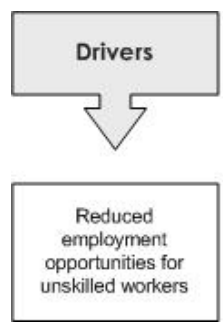
- There should be no more than five drivers, objectives and benefits. There is no restriction on the number of changes and enablers but remember that you are telling a story. If there are too many elements then the story will become diluted – keep it reasonably high level.
- When you link elements to each other (e.g. drivers to objectives), each element should link to no more than three elements from the next column. You can represent dependencies in the case of changes and enablers (e.g. new processes may be required before training is undertaken).

1. Drivers

The reasons for investing should be identified. The drivers are often couched in negative terms. Examples include “Reduced employment opportunities for unskilled workers”. Occasionally drivers can be positive but usually only when an opportunity has presented itself, such as “opportunity to test geographical data sets during the Commonwealth Games”. When defining the drivers, think of the audience for this document. That is, if you are developing a proposal for central budget funding, would the Premier and the Treasurer be concerned about these drivers? The drivers are never technical – always approach the drivers from the perspective of the business. Each driver must be supported through evidence – not just a feeling.

Establishing the drivers is the foundation task in the development of an effective Investment Logic Map. Don't be surprised if you take most of the workshop to agree on a final set of drivers.

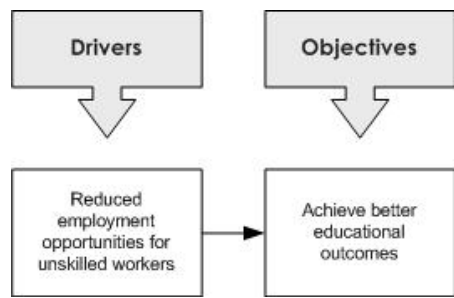
Figure 3: Drivers



2. Objectives

The objectives represent an organisational response to the identified drivers. If you achieved the objectives you will have responded adequately to the drivers. Objectives often reflect the high level aims/goals/aspirations of the business unit or organisation. They should also never be written from a technical perspective. In our education example, the objective would not be to build a school but to “achieve better educational outcomes”. Building the school is the solution, which we are not assuming at this stage.

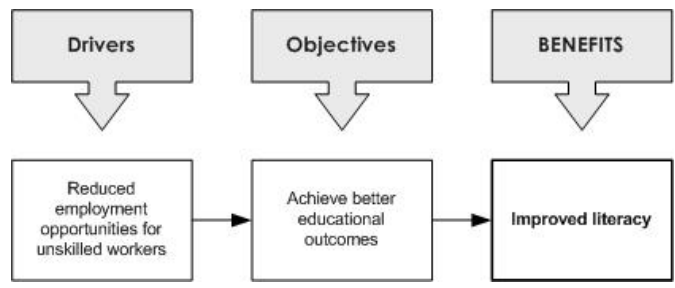
Figure 4: Drivers and objectives



3. Benefits

These are the direct advantages gained by identifiable groups within government or the community which result from government achieving a stated objective. So, using our example, if you met the objective “achieve better educational outcomes” then you might reap the benefit “improved literacy” or “reduced disadvantage in depressed communities”. To claim this benefit it must be measurable – ultimately you will need to define on whom responsibility for measurement and ultimately benefit achievement will fall. This column will create the backbone of your benefit management plan.

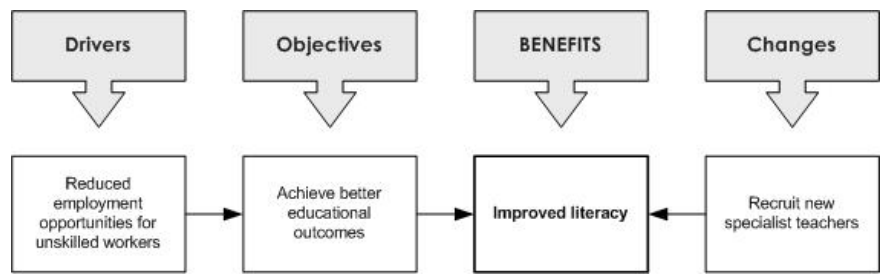
Figure 5: Drivers, objectives and benefits



4. Changes

To achieve any benefits, someone has to do something differently. That someone can be either a public servant or a member of the community. The something can be any activity that is performed. There are few restrictions on what can be defined as a change, however, any activity specific to the delivery of an asset should not be treated as a change but an enabler. To achieve “improved literacy” you may need to “recruit new specialist teachers” or “provide free adult education”.

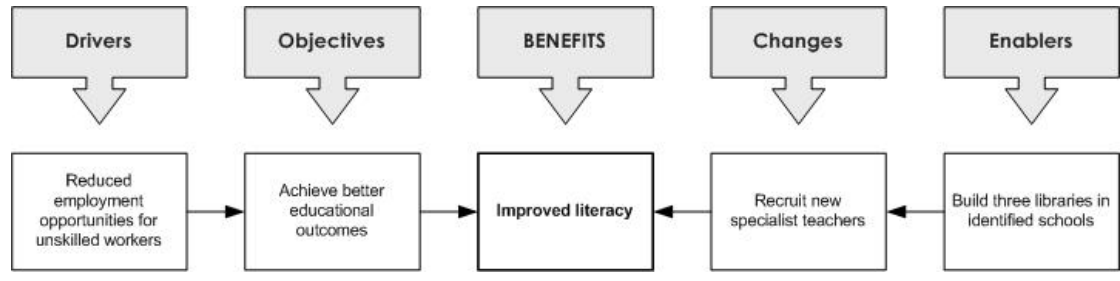
Figure 6: Drivers, objectives, benefits and changes



5. Enablers

This is the only optional element. While some benefits may be achieved through the application of changes to the way business operates, others will require additional assets be purchased or built. In the teaching example, the requirement may be to “build three libraries in identified schools”.

Figure 7: Drivers, objectives, benefits, changes and enablers

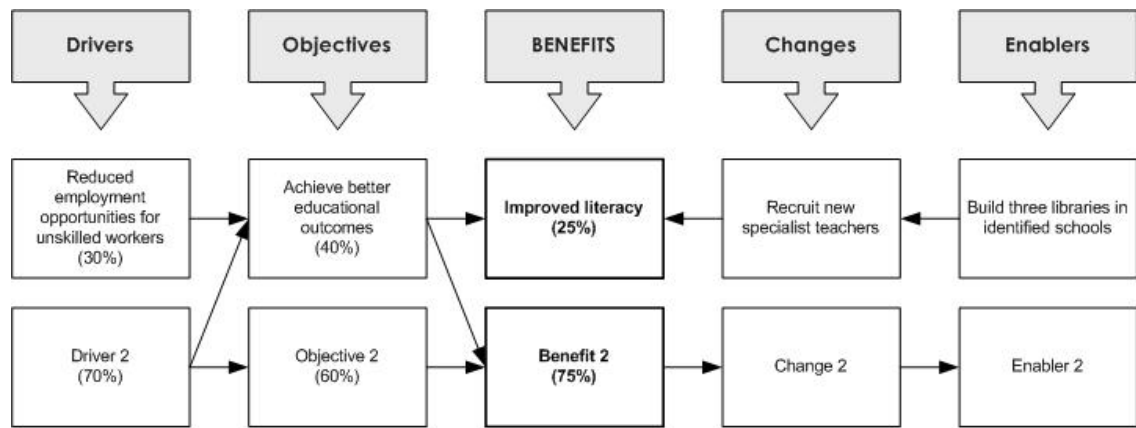


- Apply weightings

Weightings are applied to each of the drivers, objectives and benefits. Weightings can be applied either after the completion of each column on the map or when all elements of the map have been completed. The weighting applied to each a benefit is determined through a process whereby you divide 100% amongst each of the drivers, and then split that amongst the connected objectives. The weighting process allows you to do three things.

- It challenges participants assumptions about what they thought were the most important reasons for investing.
- It you can test whether the investment in changes and enablers which lead to the achievement of specific benefits is reasonable. For example, you may find that a benefit is rated at 20% of the overall value of the investment but that the changes and enablers leading to that benefit consume 90% of your resources – should that benefit be forgone?
- In measuring weighted benefit you can also determine more accurately to what extent the overall anticipated benefit is being achieved.
- In summary, you should:
 - Assign a total of 100% for each of the driver, objectives and benefits columns.
 - Split each element’s weighting amongst all those elements to which it is linked on the right.
 - Determine the percentage split between elements. The split does not have to be equal rather it should reflect the contribution or significance to the linked element. In the example below Driver 1 directly contributes 30% to Objective 1 and 20% to Objective 2.

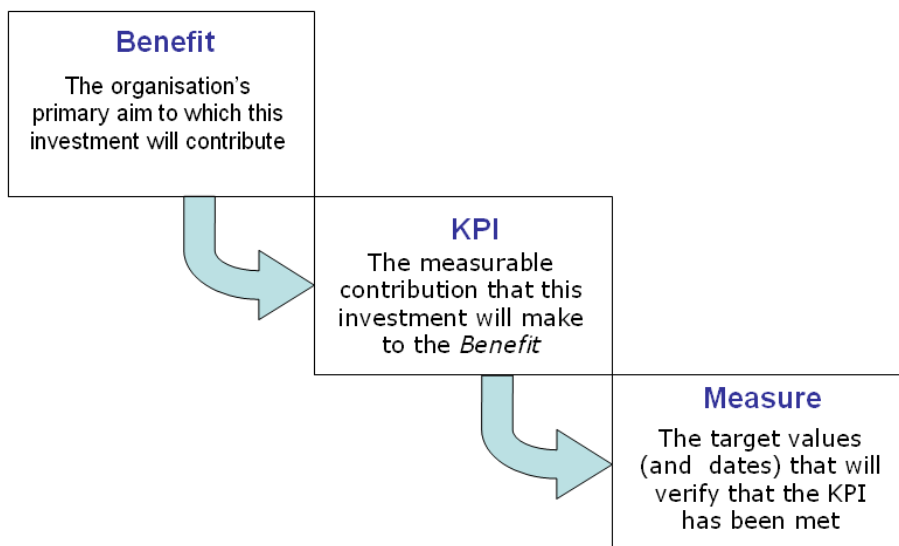
Figure 8: Applying weighting



- Define Key Performance Indicators

Once the ILM and the weightings have been identified, the next step is to assign key performance indicators (KPIs) to each of the benefits. Each benefit must have either one or two KPIs and these should be specific to the investment being considered. You need to be able to show a clear link between the KPI that this investment will deliver and the proposed benefit. If you cannot define a valid KPI for a benefit you must remove the benefit from the ILM.

Figure 9: Defining appropriate KPIs



2.2.3 After the workshop

The facilitator will make copies of the investment logic map on the whiteboard and will develop the draft investment logic map in the appropriate template and return it to the investor within one working day. Within two working days the investor should have reviewed the draft and advised the facilitator of any changes.

3 More information

The Standard includes a template which should be used to create the map once the workshop has been conducted. You can find this template on the Department of Treasury and Finance website.

For more information, please go to www.dtf.vic.gov.au/investmentmanagement or email investmentmanagement@dtf.vic.gov.au

4 Appendices

4.1 Glossary

Business Case

A document providing the information that an investor needs to decide whether to commit resources to a new investment.

Benefit Management Plan

A short document that defines the pre-requisites for the delivery of each expected benefit, how the delivery of each benefit will be measured, and who will be responsible for measuring and realising each benefit.

Benefit Reports

A report for the investor that depicts the status of the delivery of the benefits compared to the original expectations.

Gateway

The Gateway Review Process is a best practice initiative based on proven techniques used extensively in progressive industries and governments. The Gateway Review Process has been validated and optimised for use in Victoria over a wide variety of projects and programs.

Growing Victoria Together

A ten-year vision that articulates what is important to Victorians and the priorities that the Victorian Government has set to build a better society.

Investment Concept Brief

A two-page document that provides the logic underpinning an investment along with the likely costs, risks, dependencies and deliverables. Its purposes are shape the best solution to an identified business problem and to enable the selection of competing investments before proceeding to full business case.

Investment Logic Map

A one-page depiction of the logic the underpinning a potential investment. It diagrammatically depicts and relates the drivers, objectives and benefits for an investment and the changes necessary to deliver the identified benefits.

Investment Management Standard

A best practice approach applied over the life of an investment that aim to reduce the risk of investment failure, provide greater value-for-money and drive better outcomes.

Investment Reviews

Formal scheduled periodic reviews that aim to confirm that the logic for an investment remains valid before recommitting to the investment.

Investor

The person who has an identified business problem (or opportunity), will be responsible for making an investment decision aimed at solving the problem and will ultimately be responsible for delivering the expected benefits of that investment. This person is often referred to as the 'senior responsible owner'.

Key Performance Indicator (KPI)

A measure that has been selected to demonstrate that a benefit expected from an investment has been delivered.

Project Management

A controlled process of initiating, planning, executing, and closing down a project. The changes required to enable the benefits of an investment to be delivered are usually defined as projects.

4.2 Investment logic map (example)

Figure 10: Investment logic map (example)

