

# INVESTMENT MANAGEMENT STANDARD

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Department of Treasury and Finance

Investment Management Standard

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# 1 Introduction

## 1.1 About investment management

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.

Over the past few decades the management of investments has commonly been supported using the tools of project management. These tools focus primarily on the question of whether a funded project is running to time and budget. In their common use project management tools are not used to assist in shaping an investment or in making decisions as to which investments should be funded. They do not focus on the ultimate delivery of the benefits expected of the investment. The tools of project management do not generally assist ‘the investor’ in responding to the question, “has my investment delivered the expected benefits?”

Investment management considers the investment from the viewpoint of the investor rather than the project manager. It represents a marked shift in thinking. The focus is different, the timescales are longer and the language used is not the same as for project management. Figure 1 depicts this differentiation. Good project management is critical to the success of an investment and this standard does not diminish this in any way but rather serves to complement it. This Investment Management Standard (IMS) provides a communications tool that will enable an investor to focus on the reason for the investment and the benefits it provides throughout the investment lifecycle.

**Figure 1: The context of investment management**

INVESTMENT Management	PROJECT Management
Is the logic for the planned investment clear? Is there a sound business case to proceed? Were the expected benefits achieved?	Will the project complete within budget? Will it deliver to its planned schedule? Were the expected products delivered?

## 1.2 Purpose of this standard

This standard has been developed with two objectives:

### 1. To improve the value-for-money from Government spending

The application of the standard will result in improved value-for-money. A study of its use over 18 investments totalling \$420m indicated that it reduced investment costs by around 10% through better re-use of existing capabilities, improved risk management and process savings.

### 2. To enable greater impact of Government policies

The standard facilitates the shaping of investments so they focus on Government’s primary objectives and build discipline around the identification and tracking of benefits. The above referenced study found that the use of the standard was likely to result in 20% more benefits than would have accrued using traditional investment approaches.

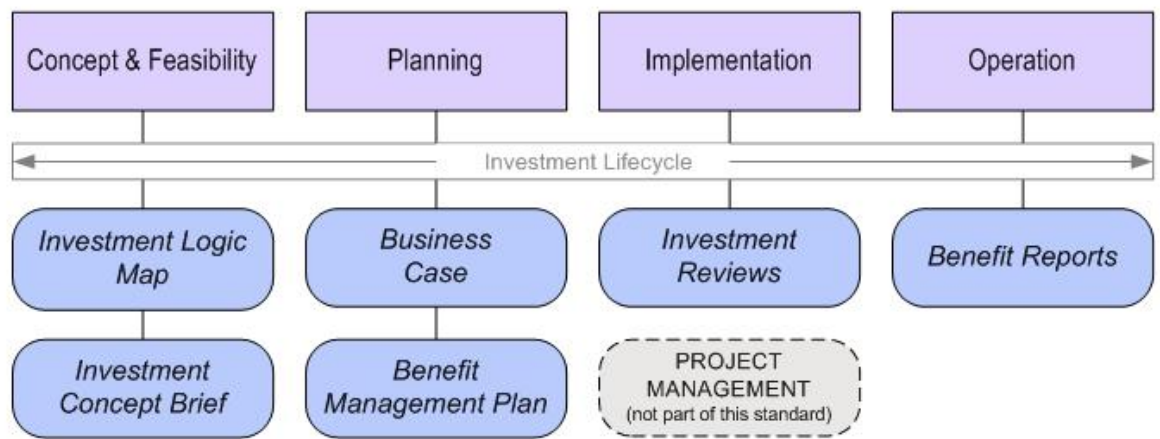
# 2 Compliance with this standard

This standard defines a number of individual guidelines that together constitute ‘investment management’. An investment is compliant if it employs the relevant guidelines as it progresses through the investment lifecycle.

### 3 The Investment Management Guidelines

Figure 2 depicts the six guidelines that comprise the IMS and their placement within the investment lifecycle.

**Figure 2: The Investment Lifecycle**



These guidelines have been developed over several years as a result of the pragmatic application of some sound theory. They have been designed to be simple, practical and to provide maximum value for the minimum amount of effort and cost. As good ideas evolve there is a natural inclination to make them even better by adding complexity. The end result of this is often over-engineering and reduced impact. In developing this standard such temptations have been resisted.

People instinctively believe that the adoption of any new methodology will be an overhead - ultimately something that will take more of their scarce time. This standard has been shown to be time saving from its first use. Understanding the logic for an investment, shaping the solution and developing a business case and benefit management plan are normally long and complicated activities. This standard will substantially reduce the time taken for these activities by bringing the key people together for a series of short, focused facilitated workshops. Experience has shown that both the effort and the duration required to develop business cases and benefits management plans have been reduced and the resulting products are more robust.

This standard does not specify any approaches to support project management. Project management methodologies are well advanced and most organisations have them imbedded into their normal mode of operation.

## 4 The Guidelines

### 4.1 Investment Logic Map

#### 4.1.1 Purpose

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 had a stake in the investment outcome and 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.

#### 4.1.2 Approach

On a single page the investment logic map depicts the drivers for the investment and the objectives and benefits that would be required to respond to these drivers - “the problem”. It then identifies the business changes and any enablers that would be needed to meet the objectives and provide the benefits - “the solution”.

An investment logic map is the product of a two-hour facilitated workshop with the key participant being ‘the investor’ - that person who has identified a business need and will be responsible for making an investment to satisfy that need. This person will ultimately be responsible for the delivery of the benefits that will respond to the initial need. It is critical that the real ‘investor’ is the focus of this workshop and that the role has not been delegated to someone less responsible or with less strategic insight into investment as this will ultimately compromise the outcome of the investment.

Whereas deriving and depicting the logic for a potential investment provides value in itself, the major value that is provided by these workshops is that of a communications tool. The facilitated workshop is a means by which the views of all participants are understood and reconciled and the ‘story of the investment’ is created. Within 24 hours the agreed investment logic map can be circulated for final modification and agreement - an example of an investment logic map is shown in the Appendix.

For any major investment it is important that the workshop facilitator is accredited in the development of investment logic maps. Experience has shown that, without a facilitator trained and experienced in the creation of Investment Logic Maps the effectiveness of the result is diminished - sometimes severely. To avoid this outcome a system of facilitator accreditation has been introduced. Where an organisation does not have a suitably skilled internal facilitator the cost of engaging an accredited facilitator to develop an investment logic map is insignificant (around \$AUD 2000) and can be completed within 24 hours.

The investment logic map delivered in this process is the foundation document for the investment and is the basis for all subsequent phases of this methodology.

It should be noted that, outside of investment management, this tool has proven to be an effective means of clarifying the underlying logic and priorities of an organisation’s existing or potential activities. Organisations are now using investment logic maps to support improved portfolio management.

### 4.2 Investment Concept Brief

#### 4.2.1 Purpose

The investment logic map developed in the previous guideline provides a clear understanding of why an investment is being considered (‘the problem’) and what the solution could be (expressed in terms of changes and any associated enablers). However, before a decision can be made to proceed to development of a business case, further thought is needed to identify what might be the best solution -

that which is strategically aligned, clever and realistic. The broad timeframes, risks, dependencies and costs of the solution then need to be understood and recorded.

This will help to avoid investments that replicate infrastructure, miss opportunities to align solutions with broader policies and strategies and fail to take advantage of new thinking and technologies.

Before committing resources to develop full-blown business cases, investment concept briefs can also assist investors to sort and prioritise a number of investments that will be competing for funding.

## 4.2.2 Approach

The means used to identify the likely best solution is through a two-hour facilitated workshop that brings the investor together with a strategist, an innovator and someone who has implemented a similar initiative. Together these people will shape the potential investment based on their various perspectives.

The first hour of the workshop will address the following questions:

- Is the proposed approach aligned with broader policy objectives?
- Does the solution outlined take advantage of new thinking and technologies?
- Are there capabilities or assets in existence that might be used as part of the solution?
- Is the proposed solution feasible?
- Are there technical standards or policies that should be adopted in developing the solution?
- Can this investment be used to provide capabilities or assets that others might use in the future?
- Will the solution enable the benefits sought by the investor to be obtained?

Based on the agreed broad definition of the solution, the second hour of the workshop will identify the likely timeframe, risks, dependencies and costs so that the simple two-page investment concept brief can be completed. An example of the format for an investment concept brief is shown in the Appendix.

## 4.3 Business Case

### 4.3.1 Purpose

The need to develop a sound business case is well understood and, within the Victorian Government, considerable work has been undertaken as part of the Gateway initiative. The Gateway Business Case Guidelines address the key issues that are common to all investments and allow the flexibility to scale the business case appropriately for the particular investment.

### 4.3.2 Approach

The Gateway Business Case Guidelines build upon the investment logic map and the investment concept brief developed in the two previous guidelines. The Guidelines were primarily developed for major investments but they have been modified to provide useful guidance and tools for investment of any size. The Guidelines:

- provide a logical structured approach;
- set out the recommended format for the final business case;
- provide tips and recommendations concerning the content for each component of the business case; and
- include several sets of tools that will help to develop strong arguments that reinforce the claimed benefits

## 4.4 Benefit Management Plan

### 4.4.1 Purpose

The decision to make an investment is often hindered by a lack of confidence by the investors that the investment really will produce the benefits they are seeking. The most common reason for this is that insufficient evidence exists that previous similar investments had delivered the required benefits.

This is often caused by:

- The expectations of the investor being unrealistic or never communicated to, or agreed to, by all the concerned parties
- The business changes that were a pre-requisite to obtaining the benefits never being completed, or
- Nobody was assigned the responsibility of tracking and reporting the delivery of the benefits.

Where benefit management plans have existed in the past they were usually of limited value as they were expensive to develop, difficult to understand and complex to apply. The Benefit Management Plan Guideline redresses these shortcomings with an approach that builds on the previous guidelines and is simple, practical and effective.

### 4.4.2 Approach

Benefit management plans developed as part of this standard are brief and to the point. For each benefit key performance indicators (KPIs) that can be measured and are directly attributable to the particular investment are selected.

The investment logic map that was developed previously will have identified a small number of benefits - normally around three but no more than five. For each of these benefits 1 or 2 KPIs will also have been identified. Each benefit is considered separately and occupies just one page in the plan. On that page the benefit, with its overall percentage weighting when considered against the other benefits is recorded along with the KPIs and target measures for each KPI. Also recorded on that page are the changes that must be made as pre-requisites for obtaining the benefit, who will be responsible for realising the benefit and who will be responsible for measuring whether the benefit has been delivered.

The benefit management plan is developed as part of the business case and is a pre-cursor to making an investment decision as it provides evidence that the benefits expected of the investment are well understood and are achievable. This is a shift in thinking where previously such plans have only been required (if at all) after an investment decision has been taken. An example extract of a benefit management plan pertaining to one benefit is shown in the Appendix.

## 4.5 Investment Reviews

### 4.5.1 Purpose

Tracking the status of an investment throughout the investment lifecycle is normally restricted to project reporting - reporting only during the project implementation phase and focussing primarily upon how the project is tracking against its original time and cost expectations. This has significant limitations in that, even if a project is tracking to time and budget the original drivers for the investment may no longer be valid.

The investment logic map and the benefit management plan developed in previous guidelines provide the opportunity to track the status of an investment focussing primarily on the value that the investment is likely to provide. Investment reviews are the forum for this activity.

Investment reviews are conducted at pre-determined time intervals during the lifecycle of an investment with the objective to determine whether the logic for the investment remains valid. This information, considered with budget and schedule information, then allows the investor to make informed decisions regarding the future of the investment.



## 4.5.2 Approach

The documents that define the foundation logic for an investment (investment logic map and benefit management plan) become formal investment documentation.

At the time funding is committed a governance board (chaired by the investor) will decide at what intervals throughout the investment lifecycle it will be necessary to review the foundation logic for the investment. This may be at 6-monthly intervals but will be determined by the nature of the investment.

At each of the specified intervals a formal two-hour workshop will be held to test the continued relevance of the existing investment logic. This workshop will be similar to the investment logic mapping workshop and will be facilitated by an accredited facilitator.

In parallel with this review the normal review of a project's performance against Cost and Schedule expectations will be carried out.

Based on the current investment logic and the project status the governance body will then decide to continue, discontinue or vary the terms for implementing the investment. The investment logic map and the benefit management plan that resulted from the review and ongoing investment decisions will be endorsed by the board as valid at that decision point.

## 4.6 Benefit Reports

### 4.6.1 Purpose

Seldom are the benefits delivered by an investment tracked, measured and understood. This results in a perception that the expected benefits were not delivered. Obtaining regular reporting against the delivery of the expected benefits overcomes this problem and also provides investors and strategists with information on the effectiveness of investments that they can use to inform future investment decision-making. There is substantial anecdotal evidence that for several types of investments - such as technology investments - benefits are often delivered that were unforeseen at the time of the investment decision and that are never ultimately recognised.

In addition to addressing the above problems benefits tracking and reporting will inevitably drive more benefits from an investment.

### 4.6.2 Approach

Using the KPIs identified and defined in the benefit management plan, it is now possible to implement a simple benefits tracking and reporting system. A spreadsheet has been developed in which the expected benefits and KPIs and the actual achievement of these can be recorded. These are then depicted as two curves - one representing the expected achievement of benefits and the other representing the actual achievement. A depiction of benefits reporting and its relationship to project reporting is shown in the Appendix.

It is not expected that new tracking systems will need to be created but rather that existing project management reporting systems be extended until all of the expected benefits are delivered rather than concluding when a project is implemented. This will also enable the integration of the project status with the investment status as required for the investment proposition review described above.

This approach also identifies and tracks unplanned benefits that have resulted from the investment.

## 5 More Information

For more information, please go to [www.dfvic.gov.au/investmentmanagement](http://www.dfvic.gov.au/investmentmanagement)

or email [investmentmanagement@dfvic.gov.au](mailto:investmentmanagement@dfvic.gov.au)



## 6 Appendices

### 6.1 Appendix: 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 aims 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)**

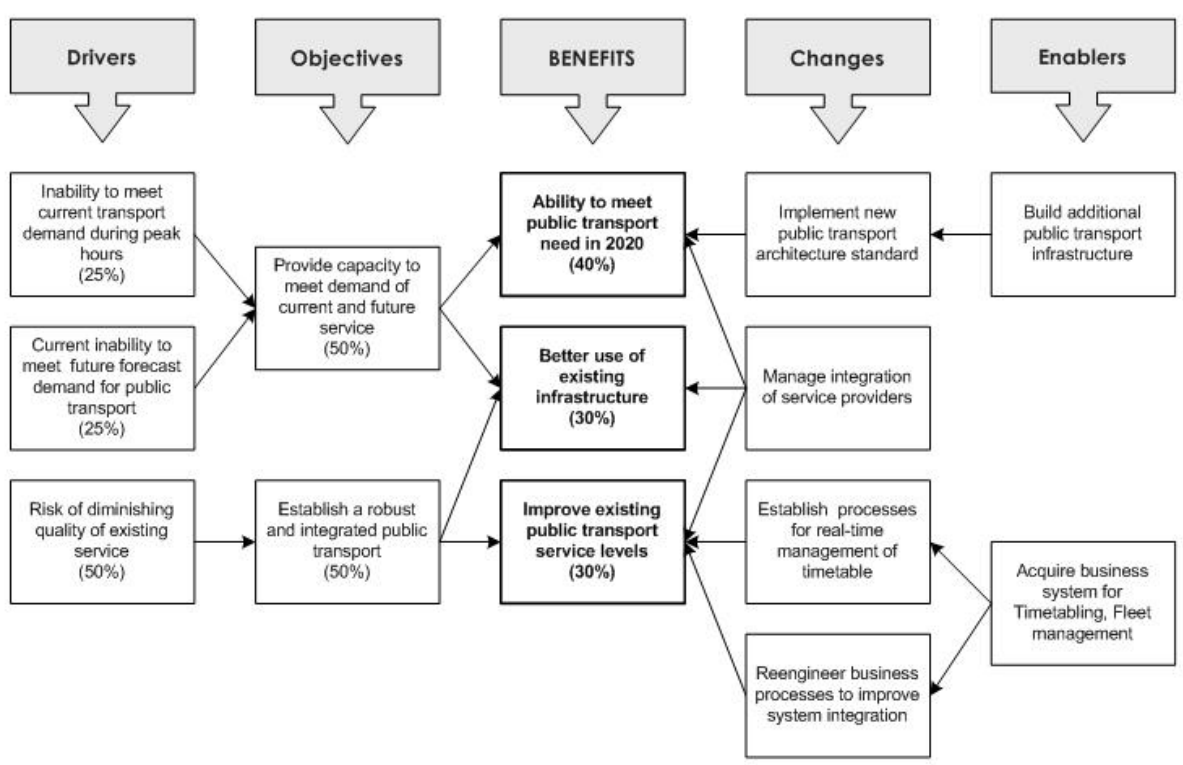
A measure that has been selected to demonstrate that a benefit expected from an investment has been delivered.

#### **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.

## 6.2 Appendix: Investment logic map (example)

Figure 3: Investment logic map (example)



## 6.3 Appendix: Investment concept brief (format)

Figure 4: Investment concept brief (format)

**Investment Concept Brief**

**<NAME OF INITIATIVE>**

**CONTEXT**  
 <short description of why this investment should be considered>

**BENEFITS**  
 What benefits will it provide? (Refer to the attached Investment Logic Map)

**TIMEFRAME**  
 Following funding approval, what would be the time intervals for each key deliverable?

Description of deliverable / milestone	Time from funding (Months)

**RISKS**  
 What are the primary risks to the success of this investment?

Risk	Criticality (H/M/L)	Likelihood (H/M/L)

**CRITICAL DEPENDENCIES**  
 Are there any critical dependencies with this investment (dates etc)?

Description of dependency

**COSTS**  
 What are the likely costs of the investment?

Item (business change or enabler)	Cost	Likely funding source
Total		

**INITIATOR**  
 Who is the senior person who would progress this proposal and would ultimately be responsible for delivering the identified benefits?

Name	Position	Date	Signature

## 6.4 Appendix: Benefit management plan (example)

### Lower cost of justice (15%)

#### BENEFIT MANAGER

<b>Name</b>
<add name>
<b>Position</b>
<add position>
<b>Organisation</b>
<add organisation >

#### KEY PERFORMANCE INDICATORS

KPI 1	KPI 2
Decrease in trial length of major eTrials compared to manual trials	Number of court locations provided with Smart Court facilities
<b>Baseline value</b>	<b>Baseline value</b>
	0%
<b>Target value</b>	<b>Target value</b>
- 5% criminal jurisdiction - 7% civil jurisdiction	53%
<b>Frequency</b>	<b>Frequency</b>
Quarterly	Quarterly
<b>Collection method</b>	<b>Collection method</b>
School records	School records
<b>Measurement start date</b>	<b>Measurement start date</b>
Q4 2007	Q4 2007
<b>Measurement end date</b>	<b>Measurement end date</b>
Q4 2009	Q4 2008
<b>Data provider</b>	<b>Data provider</b>
<add name>	<add name>
<add position>	<add position>
<add organisation>	<add organisation >

#### PREREQUISITES - CHANGES

Change	Anticipated completion date
Standardise processes and terminology	July 2007
Actively encourage use of eServices, eTrials, eForums & other eServices by modifying court rules and/or offering discounts for eFiling.	May 2009

#### PREREQUISITES - ENABLERS

Enablers	Anticipated completion date
Complete Smart Court Program	June 2008

## 6.5 Appendix: Project and benefit reporting

Figure 5: Project and benefit reporting

