

Public sector: A BACK-TO-BASICS APPROACH HAS DELIVERED A USEFUL SET OF PRACTICES THAT ALLOWS INVESTMENTS TO BE SHAPED AND TRACKED THROUGHOUT THEIR LIVES, EXPLAINS TERRY WRIGHT

A firm grip on investments

POSSIBLY THE QUESTION MOST ASKED of business and government executives over the past 30 years has been: "Is my investment delivering the expected benefits?" Rarely can it be answered. Was it clear what benefits were expected? How was the investor going to know when they were delivered?

Thirty years of management theory has focused on providing the answer, and many sophisticated approaches have been developed. In 2007 it seems the answer is still as obscure as ever. Those investors who have been the most serious about finding the answer have commissioned benefit management plans – a project in their own right. After investing many thousands of dollars, investors are usually left with a thick document that is difficult to access and of little practical value.

As project-management methodologies have evolved, robust project-management practices have been implemented in many organisations. This has provided investors with a new level of confidence that projects would complete on time and

to budget. In the absence of investment-management capability, project-management practices have become the default for investment-management practices. However, the language and tools of project management often serve to alienate investors from their investment, and consolidate a focus of time and budget. The lingering and pivotal question remains: "Is my investment delivering the expected benefits?"

The need for some new thinking

In 2003 the Victorian government recognised the significance of its ongoing investment in information and communications technologies (ICT), both in terms of its magnitude and its significance to the reform of government. As was the case with ICT globally, there was a sense that even though ICT promised much, there was little belief by investors the promised benefits were delivered.

Within the Victorian government functions were established to drive better value for money from government ICT-related spending, and to help shape investments that would build whole-of-government strategic capability. The primary focus of this activity was the assessment and prioritisation of investment proposals during the annual budget process.

Unable to identify any investment-management approach that would support the task, it was decided to go back to basics and develop simple practices



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that would provide high impact for the minimum cost. It was recognised that before any investment decisions were made there needed to have a clear understanding of the drivers, benefits and business changes necessary to obtain the benefits. Some questions were pondered: What are the decision points during the investment life-cycle

that are critical to the ultimate success of an investment? What information is needed to support good decision making at each of these decision points? What simple process can bring the information to the decision makers at those points?

From this questioning came the identification of what seemed like good

ideas, and these were applied over three annual budget cycles. The result was a whole new set of practices that have now been aggregated into an investment management standard by the Victorian government's Department of Treasury and Finance.

The investment management standard does not replace project management standards, but rather acts to complement them. Most of the activity of the investment management standard occurs either before or after the space that is normally affected by project-management methodologies: shaping the investments and tracking the delivery of the benefits.

The investment management standard that has been developed is, in effect, a communications device for investors that allows them to shape and track an investment throughout its life, using the language and concepts they best understand.

A different approach to managing investments

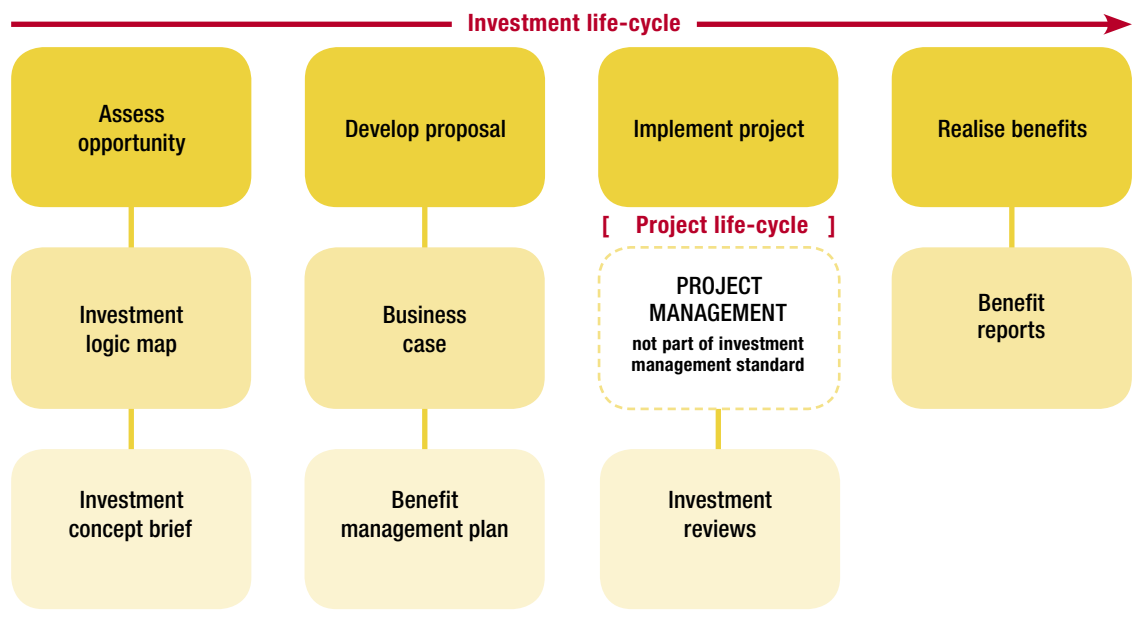
The standard comprises guidelines for activities at six points over the investment life-cycle as depicted in Figure 1.

● Investment logic map

An investment logic map is the foundation upon which the investment is built, and is a formal document maintained and referenced throughout the investment life-cycle. It is developed in a two-hour facilitated workshop during which investors identify the drivers, objectives and benefits justifying an investment, and the business changes and enablers that are required for the benefits to be achieved. The result is a single-page depiction of these elements and their relationships.

Critical to the success of this process is that the two-hour workshop be conducted by a skilled facilitator. An accreditation process has established a panel of accredited facilitators who can conduct a workshop and produce an investment logic map within 24 hours for a cost of around \$2000.

FIGURE 1: A different approach to managing investments



● Investment concept

In a second two-hour facilitated workshop with the investor, architects and implementers, the benefits sought are confirmed, as are the changes needed to obtain the benefits. This workshop also questions the proposed solution to confirm that it is shaped to exploit existing organisational capability or will ultimately build whole-of-government strategic capability. Depending on the workshop's results, the investment logic map is altered.

● Business case

The development of the business case then becomes relatively simple because the logic for the investment has been articulated and agreed by the investor through the investment logic map.

● Benefits management plan

If three benefits are identified in the investment logic map this plan comprises just three pages of substance. For each benefit it identifies the key performance indicators (KPIs) the investment will deliver, when it will

deliver them, and who will be responsible for meeting and for measuring them. It also defines those business changes/projects that are a prerequisite to obtaining the benefits. Based on the relative importance of the individual benefits a percentage is allocated to each.

● Benefit reports

Using the detail of the benefits management plan, a simple spreadsheet tracks the identified KPIs and produces a benefits curve that depicts how the delivery of the benefits is tracking against expectations (Figure 2).

● Investment reviews

At set intervals during an investment (for example, six-monthly), a formal facilitated two-hour review is conducted to determine whether the investment logic map and the benefits management plan are still valid. Considered alongside the project status (schedule and budget) the future investment expectations are formalised.

Impact of the new approach

Having applied the practices to more than 50 investment proposals during the 2006 budget cycle, an independent study was commissioned to assess the impact of the approach. The study found it was likely the application of the standard would drive down the costs of investments by 10 per cent and drive a 20 per cent increase in the benefits the investments would ultimately deliver.

To this point the method had been applied only to ICT-dependent investments and only to those that were seeking funding as part of the annual budget cycle. Realising the high value it provided, management in government departments and agencies wondered why it wasn't used for all investments across government.

Two responses have since occurred. The first was to incorporate the use of investment logic maps and benefits management plans into the government's Gateway Business Case Guidelines, which are the standard for all government investments. >

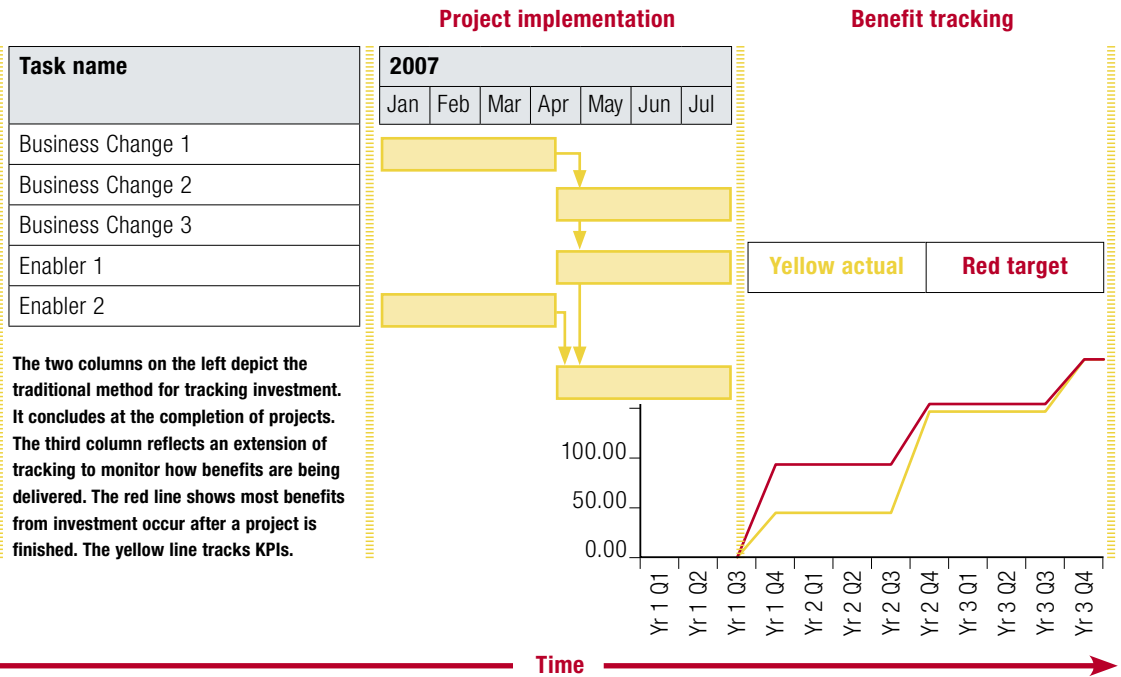
> The second response was to offer skills-transfer workshops to departments and agencies. These drew an overwhelming response. In the second half of 2006, voluntarily attendance at the workshops was 228, 142 of whom also completed training to facilitate the development of investment logic maps.

This rapid uptake was not a result of any management dictate to comply, but rather the recognition by individuals of the practical value the approach provided when compared to previous practices. This includes faster development of better business cases, more informed investment decision making, and greater success at obtaining funding. Most new processes represent an overhead, whereas this constituted “an underhead”.

New frontiers

Although the investment management standard was developed to understand individual investment proposals and make more informed investment decisions, its application is already evolving to provide a portfolio view of investments. The other area where the approach has the potential to provide high value to government is in the development of government policy and the ultimate measurement of its impact.

FIGURE 2: Tracking the benefits of an investment



The two columns on the left depict the traditional method for tracking investment. It concludes at the completion of projects. The third column reflects an extension of tracking to monitor how benefits are being delivered. The red line shows most benefits from investment occur after a project is finished. The yellow line tracks KPIs.

Now there is a cost-effective way of driving substantially more benefits from an investment



The work done to date has provided several noteworthy results. There has been a major advance in the ability of organisations to make ranking and allocation decisions for investments. Now there is a cost-effective way of driving substantially more benefits from an investment.

And for a cost of, say, 12 hours over the life-cycle of an investment, investors can take a firm grip on the logic for an

investment. Investors will no longer need to ask, “Is my investment delivering the expected benefits?” They can answer it for themselves. ■

Terry Wright works for the Victorian government's Department of Treasury and Finance. Access the standard at: www.dtf.vic.gov.au/investmentmanagement