



INVESTMENT LOGIC MAPS

Like Winning Gold!

Issue 246 July 28 2008

Managing Urban Infrastructure

A 'how to' issue

As the world's best athletes gather in Beijing for the 2008 Olympic Games, carrying with them the hopes and prayers of their countries and especially of the teams that have laboured so long to get them to their peak condition, you may want to ask yourselves whether their efforts over many years would even have been possible if they did not have:

- (a) clear goals to work towards;
- (b) a means of measuring improvement towards these goals; and
- (c) a way of knowing the final results.

In our asset investments, unfortunately, we often fall short of these standards; we often engage in large and expensive projects with only the vaguest idea of what beneficial outcomes are desired, and no way of measuring whether we are on track or even when and whether the goals are achieved.

Don't be in the position of responding, when asked why your costly but imprecise project was even started - "Well, it seemed a good idea at the time"! This issue is an introduction to the solution:

"Investment Logic Maps"

Editor: Dr Penny Burns, AMQ International

PO Box 75 Salisbury South Australia 5108

Telephone 61 (0) 8 8281 5795

Email: amqi@amqi.com Website www.amqi.com

Editorial



How do you know whether your projects are successful?

This was the July 21st “Thought for the Week” on the amqi.com website - I do hope that you are enjoying these. It is most relevant to our current topic.

‘I had been asked to review a large and expensive hospital renewal project. I spoke to the hospital CEO and asked him whether the project had been successful. “Oh Yes!” he replied “Very successful!” “I am glad to hear it” I replied. “Tell me, how do you know?”

He hesitated, looked at me, and said “What do you mean?” I asked him what the project had been intended to achieve. He told me it was ‘increased throughput’. Not knowing what he meant by this I nevertheless asked him what the throughput was before the renovation. He confessed he did not know. Well, then, I asked, what is it now? Again he did not know. I asked him how he would measure throughput. I drew a blank.

I asked him questions about intent and performance and he became increasingly frustrated. At the end he blurted out defiantly, “Well, at least the staff like it!” Interestingly, if the goal had been to increase staff morale this might well be an indicator of success. But it hadn’t been.’

How do YOU know whether your projects are successful?

Can you measure success? If your project is ‘going off the rails’ and not achieving the expected benefits, do you know in time to do something about it? If conditions change, can you change your project and its benefits?

It is not enough to be ‘on time and on budget’ - the real question is did you achieve what you said you would? In Issue 237 (March 24) “The Right Debate” I quoted the NZ Auditor General, Kevin Brady, who said

“For financial statements, their structure, composition, measurement and disclosure are heavily prescribed by financial reporting standards. There are no such standards for non-financial performance statements, which need to be customised to reflect the nature of the reporting entity. Therefore judgements need to be made about which outcomes and outputs are most relevant and significant for the purpose of external reporting. It is these judgements that seem to create many of the issues and problems - both for preparers and users.”

Well, here is the SOLUTION to your investment management AND reporting.

Do consider and enjoy

Penny

A new technique that does not require you to invest time in coming up to scratch, but will, in fact, SAVE you time on your very first use. How rare is that? Probably even scarcer than a gold medal!



INVESTMENT LOGIC MAP



In this issue of SAM I want to introduce you to a concept that has been tremendously successful at the state level in Victoria but is probably little known outside. It deserves to be much more widely known for it is equally applicable to local government and to the private sector.

But I don't want you just to take my word for it. Here is what Steve Hodgkinson, writing in the *MIS Financial Review*, had to say:

“ It starts with a focus on the ends, rather than the means; on engaging investors in a dialogue, rather than overwhelming them with detail; on being clear about the practical enabling actions required; and on unambiguous assignment of accountability for the proposed benefits.

The right approach is to think like an investor, not a project manager.

Also, an investment's life cycle is longer than that of the project. Often, the value is not fully realised until after the project team has disbanded. The investment life cycle starts with the initial idea, and ends only when the investors are happy with the return on their capital, or have revised their benefit expectations.”

There are two steps:

Create an investment logic map - so you know what you are doing and why, and
Sheet home the accountability - to make sure you get the benefits you claimed you would

In this brief introduction we will show you how to do both. Then I would encourage you to visit the Victorian Department of Treasury and Finance website, select “Gateway” and then “Investment Logic Maps” where you can have Terry White, who has been responsible for the development of this technique over many years, conducting over a hundred ILMs, and training facilitators to do the work, walk you through the basics in a series of very short (2m - 6m) videos. Then *read* the guidelines - they are a masterpiece of brevity and clarity. You will enjoy them.

Here is Steve again:

Create a logic map.

“The investment management approach is founded on the following pair of two-hour facilitated workshops:

Investment logic - this workshop takes investors through a commonsense discussion of the logic of the proposal to create a one-page investment logic map. The investors are the executives responsible for providing funding and delivering the required business changes. The logic map defines the drivers, objectives and benefits of the investment, and the changes and enablers required for the gains to be achieved.

Investment concept - the second workshop involves a discussion with investors, architects and implementers to develop the details of how the planned investment would be delivered. The aim is to confirm that the proposal can be achieved and to consider the relationships to other business strategies, initiatives and assets - identifying linkages and opportunities to leverage existing organisational resources and capabilities.”

Sheeting home accountability.

“The outcome of the two workshops described above is a clear and concise articulation of the investment proposal. More importantly, a group of senior executives is now fully engaged in the investment project, and at least one of them is on the hook for eventual delivery of the plan’s benefits.

The two workshops create a sound foundation for development of the detailed business case and also for definition of a concise benefits management plan to benchmark the key measures of success for the investment.

The final element of the approach is a rigorous treatment of accountability for the key enabling elements of the investment proposal and for tracking realisation of benefits. The investment logic map becomes the corporate memory of the value sought by the investment and the benefits management plan defines how and when success will be measured and who will be held accountable. These simple documents give investors the levers they need to keep complex investment on track.”

On the facing page you will see a **fictional example of an Investment Logic Map** from the Appendix to the Treasury “*Investment Management Guidelines*’. The key definitions are:

Driver The reason that action needs to be considered at this time. Drivers are normally couched in negative terms such as “climate change is demanding new ways of living in Australia”. A driver should capture the essence of what is broken and the consequence.

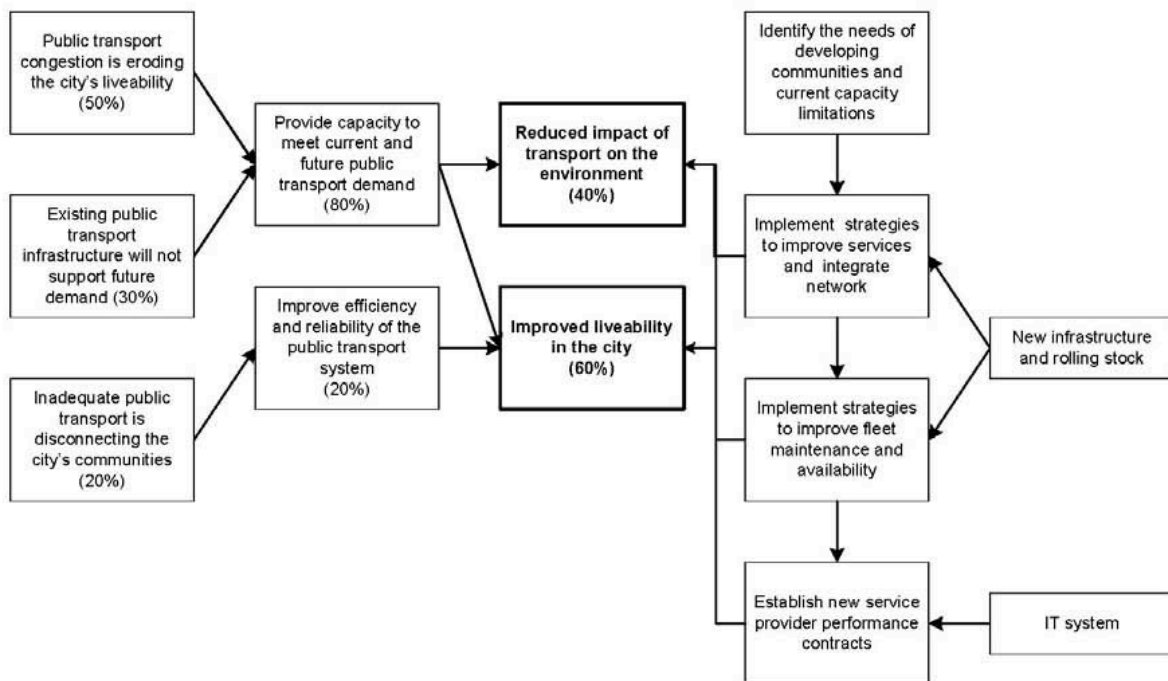
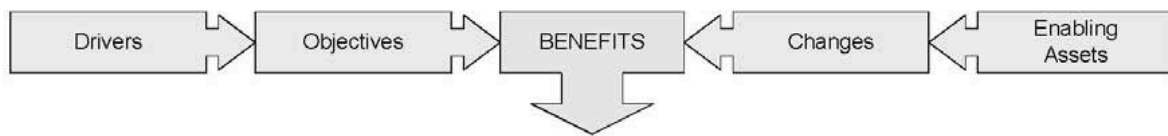
Objective The high-level action (or strategic intervention) that is proposed as the response to the identified driver. This intervention must be framed within the context of the organisation’s purpose.

Benefit The value that the investment will provide to the organisation or its customers. Benefits are normally a positive consequence of responding to the identified driver. Each claimed benefit must be supported by Key Performance Indicators that demonstrate the investment’s specific contribution to the identified benefit.

Change The things that must be done by the business if the benefits are to be delivered. The changes provide detail of how the strategic intervention defined in the objective will actually happen.

Enabling asset Any physical asset that must be built or purchased to enable the identified changes to occur. These may be a hospital, a pipeline or an IT system.

Public Transport Initiative (fictional)
 <Organisation Name>
 Investment Logic Map



| Key Performance Indicators |
|--|
| Benefit 1: Reduced impact of transport on the environment (40%) KPI 1: Increased share of trips taken on public transport vs. road |
| Benefit 2: Improve liveability in the city (60%) KPI 1: Increase in the % of public transport services that arrive on time KPI 2: Increase in the frequency of services |

Source: Department of Treasury and Finance, Victoria, Investment Management Guidelines, Appendix.

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NOTE: (%) indicates relative importance of drivers, objectives or benefits to this investment

Simplicity can be deceptive!

An entire investment logic map on one page! What you are doing, why you are doing it, what you intend to achieve and how you will measure and track those achievements. Impressive.

But beware! Everything on this map needs to be established with rigour. It is not enough to say “public transport is eroding the city’s liveability”. Where’s your proof? This is where a trained facilitator is essential.

(Incidentally, even getting agreement on what the problem is, is itself a great advance. I can recall being asked to facilitate a national meeting of road planners. Their stated goal was to improve road safety. I asked them what the current trends of road safety had been over the past few years. A third said they were ‘getting better’; a third that they were ‘getting worse’ and a third that they ‘were pretty much the same’!)

The Maps are developed during a two hour facilitated workshop with **Investors**. The investor is “the person who has an identified business problem (or opportunity), will be responsible for making (or advocating) a decision to investment, and who will be responsible for delivering the expected benefits. This person is often referred to as the ‘senior responsible owner’.”

Investment Management is not the same as Project Management

Backing the Investment Logic Map is the:

Investment Concept Brief

A two-page document that depicts the logic underpinning an investment and identifies the likely costs, risks, dependencies and deliverables of the proposed solution. It is used to summarise the merits of an investment and allow decision makers to prioritise competing investments before proceeding to business case.

Benefit Management Plan

For tracking each benefit on the Investment Logic Map there is a one page “Benefit Management Map” (see page 8)



I can’t really do the Investment Logic Maps full justice in just a few pages, so do go to the Treasury Website, <http://www.treasury.vic.gov.au/>, choose “Gateway Reviews and Best Practice Guidelines” from the side menu, and then “Investment Logic Maps” - watch the videos! read the Guidelines!

Public Transport Initiative (Fictional)
<Organisation Name>
Investment Concept Brief

CONTEXT What is the compelling reason this investment should be considered further?
 Public transport is failing to meet current demand and will be further impeded by growth in patronage.

BENEFITS What benefits will this investment deliver to Government?
 Refer to Investment Logic Map on the reverse. (OVER)

DIS-BENEFITS What negative impacts to government might result from the identified solution?
 Undertaking transport infrastructure projects may disrupt public transport services during delivery phases of projects. (short term)
 Undertaking transport infrastructure projects may disrupt road traffic particularly when projects such as grade separations occur. (short term)

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

| Risk | Criticality (H/M/L) | Likelihood (H/M/L) |
|---|---------------------|--------------------|
| Inability to accurately forecast patronage growth | M | H |
| Incorrect identification of public transport needs | H | M |
| Shortage of technical skills and construction resources | H | H |
| Inefficient project co-ordination | M | H |
| Transport operators not working collaboratively | M | M |

CRITICAL DEPENDENCIES Are there any conditions that, if they were to change, may impact the need for this investment (eg. Policies or dates)?

| |
|--|
| Government's policy regarding congestion taxes/charges |
| Government policy regarding the environment. |
| Government targets regarding public transport usage. |

TIMEFRAME What are the expected timeframes for the key deliverables?

| Description of deliverable / milestone | Time from funding (Months) |
|--|----------------------------|
| Identify current and future service requirements | 6 months |
| Delivery of new rolling stock | 1-2 years |
| Delivery of new infrastructure i.e track, stations | 1-12 years |
| Improved reliability and efficiency of public transport system | 1-12 years |

COST What are the likely costs of this investment?

| Item (business change or enabler) | Cost (range) |
|-----------------------------------|-----------------------|
| New transport infrastructure | Approx \$9.5b |
| New rolling stock | Approx \$1b |
| New IT system | Approx \$20m |
| TOTAL | Approx \$10.5b |

POLICY ALIGNMENT What is the primary policy to which this investment will contribute?
 Deliver and Sustain Future Public Transport Demand

INVESTOR Who is the senior person who will ultimately be responsible for delivering the identified benefits?

| Name | Position | Signature | Date |
|------|----------|-----------|------|
| | | | |

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Source: Department of Treasury and Finance, Victoria, Investment Management Guidelines, Appendix.

Public Transport Initiative (Fictional)
<Organisation Name>
Benefit Management Plan

Improve liveability in the city 60%

KEY PERFORMANCE INDICATORS

| | |
|--|---|
| KPI 1 | KPI 2 |
| Reliability of services | Frequency of services |
| Measure | Measure |
| Increase in the % of public transport services that arrive on time | Increase in the frequency of services that are provided |
| Baseline value | Baseline value |
| 95% | Services every 10 minutes |
| Target value for measure/s | Target value for measure/s |
| 99% | Services every 5 minutes |
| Date targets will be met | Date targets will be met |
| 2020 | 2020 |

RESPONSIBILITIES

| | |
|---|---|
| Who is responsible for meeting KPI? | Who is responsible for meeting KPI? |
| [Name] | [Name] |
| [Position] | [Position] |
| Private public transport operator | Private public transport operator |
| Who is responsible for reporting? | Who is responsible for reporting? |
| [Name] | [Name] |
| Director of Transport, Department of Transport | Director of Transport, Department of Transport |

REPORTING SCHEDULE

| | |
|------------------------------------|------------------------------------|
| Frequency of reporting | Frequency of reporting |
| Monthly | Monthly |
| Source of measurement data | Source of measurement data |
| Public Transport Operators | Public Transport Operators |
| Starting date for reporting | Starting date for reporting |
| 2009 | 2009 |
| Date reporting will end | Date reporting will end |
| Ongoing | Ongoing |

Source: Department of Treasury and Finance, Victoria, Investment Management Guidelines, Appendix.

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