

## Department of Treasury and Finance

# Investment Logic Map

### ACKNOWLEDGEMENT

The Department of Premier and Cabinet would like to thank the members of the Investment Management Team at the Department of Treasury and Finance in sharing their learnings and insights and congratulate them on being a finalist in the innovation awards.

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The development of Investment Logic Maps (ILM) is a simple and practical response to some fundamental questions facing all governments:

- › What are the primary problems or opportunities facing the organisation?
- › Which investments will best respond to these?
- › Did these investments deliver the expected benefits?

Developed by an in-house team in Department of Treasury and Finance (DTF), the ILM approach has strengthened the strategic approach to public sector investment.

ILMs are widely used across the Victorian Government and by governments in Australia and New Zealand. The Investment Management Team in DTF was recognised for its achievement as a finalist in the IPAA Innovation in Public Sector Awards 2010.

This case study examines the hallmarks of public sector innovation that characterises the success of the ILM approach and shares the learnings and insights across the Victorian Public Sector (VPS).

## 1. The policy context

The dilemma that every government faces is that there are always more business cases than there is government funding to go round. The challenge becomes one of making investment decisions that will maximise value for money from government spending and enable greater impact of government policies.

In 2003, the Investment Management Team (then within the Office of the Chief Information Officer) had the role of advising government which of the investments proposed by departments would best respond to the priority needs and deliver maximum benefit. What the team found was that departments were using processes that were elaborate and expensive. The focus of most business cases was to describe the proposed solution while failing to adequately define the policy drivers or the expected benefits. It was a case of 'solutions looking for problems'.

Unable to find an approach to support the task, the team went back to basics to develop a fit-for-purpose approach. The team's breakthrough insight was to turn the focus to defining the policy drivers and the benefits. The team developed the ILM concept specifically to establish the need for an investment before considering the best strategic response as the solution. The ILM approach is a simple and practical approach that saves time and has high impact for minimal cost. It solves the disconnect between good policy and strategy and its implementation.

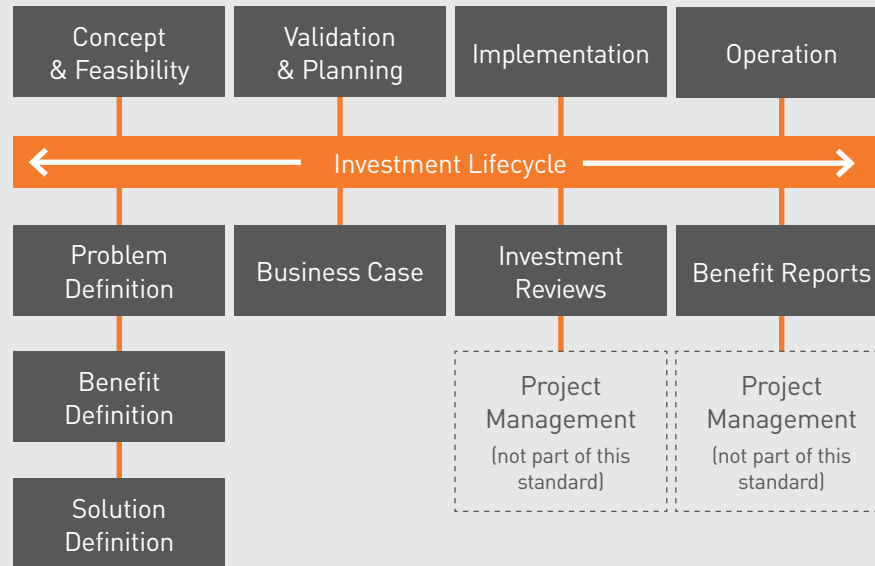
## 2. About the ILM approach

Most people would find wading through Treasury documents something of a chore. The ILM documentation breaks this mould. It uses plain language and is founded on common sense concepts. It has been described as a masterpiece in brevity and simplicity.

The approach has created a decision-making framework that directs resources to their best use. It replaces bureaucratic processes with common sense and intelligent discussion. It brings key stakeholders to the decision-making table for a two-hour facilitated discussion that builds a shared understanding of the need for investment, the benefits sought and the preferred solution. This discussion establishes the 'investment story' that is then depicted on a single page in a way that can communicate the logic that underpins the proposal to the layperson.

The ILM approach represents a marked shift in thinking — it moves from 'funding' to 'investing' and from 'project management' to 'investment management'. Its front end approach recognises that most value is added to an investment in the early stages before too much detail is locked down. Subsequent two-hour discussions produce a Benefit Management Plan and an Investment Concept Brief (effectively a mini-business case). The approach is integrated into mainstream Victorian Government processes such as the Gateway Review Process.

## The Investment Management Standard



The ILM is part of the Investment Management Standard which is 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. The standard comprises these elements:

- › Investment logic map: This is a single page map that is the foundation on which the investment is built. The power lies in its simplicity and clarity. It is developed during a two-hour facilitated workshop.

- › Benefit management plan: This is brief and to the point. Key performance indicators are developed for each benefit directly attributable to the investment. The plan sets out how each KPI will be measured and who is responsible for realising each benefit.
- › Investment concept brief: This is a two-page brief developed through a second two-hour workshop to hone the investment concept and provide a clear understanding of:
  - › why the investment is being considered (i.e. the policy problem or the policy driver)
  - › whether the solutions are aligned to government policy priorities, clever and realistic
  - › the benefits being confirmed as realisable.
- › Business case: The development of the business case becomes relatively simple once the logic of the investment has been articulated and agreed. The Gateway Business Case Guidelines build upon the investment logic map.
- › Benefit reports: A simple spreadsheet that tracks and reports on the identified KPIs to monitor the investment's effectiveness compared to the original expectations.

More information about the ILM and the Investment Management Standard is available at <http://www.dtf.vic.gov.au/investmentmanagement> or email [investmentmanagement@dtf.vic.gov.au](mailto:investmentmanagement@dtf.vic.gov.au)

### 3. What is innovative about the ILM approach?

The ILM approach has demonstrated many hallmarks of public sector innovation, particularly in four respects:

- › Triumph of common sense: The ILM challenges mechanical models of investment and overcomes compliant workplaces. It harnesses the power of simplicity.
- › Consensus building and peer production: The way the ILM was developed through peer production gave it high moral authority that drove its take-up through voluntary practice. The ILM is also inherently a consensus-building tool in its implementation through facilitated workshops that are critical to its success.
- › Realising benefits: The key to realising benefits lies in a clear understanding of cause and effect so that the logic can be understood by a layperson.
- › Extending the logic to higher levels: Over time the logic has been extended beyond looking at individual investments to looking at the program level in order to decide between competing proposals and finally to looking at what the organization can do better to achieve its mission.

#### A FRESH TAKE ON PUBLIC SECTOR INNOVATION

Terry Wright, Strategist, DTF, who led the team that developed the ILM, has a fresh take on public sector innovation. He believes that too much energy is wasted in pump-priming what is artificial innovation.

“You don’t innovate for the sake of innovation. There are no shortage of examples where organisations have established governance structures and tried to create an innovation-is-good culture that doesn’t end up changing a thing. These failed attempts devalue innovation.”

He believes a more effective approach is to start by asking questions like, “What are those intractable barriers that have been frustrating the effectiveness of the organisation in the past?” and then, “What can we now do (radically) differently to solve them?”

“To take this approach you do need some ‘air cover’ (support) to break with the previous way of doing things.”

“Reform is most effective when it is driven by someone inside the system who knows how the system works and has built internal credibility. Others are then prepared to listen and trust without the need for layers of governance. The development of the ILM would not have happened if there was a steering committee overseeing it.”

## 4. Triumph of commonsense

Public sector administration is a knowledge environment yet typically it applies manufacturing theories by deploying linear processes and assuming good judgment will pop out at the end. This results in a project management focus on time and budget rather than thinking like an investor with a focus on benefits as a return.

Effectively, the ILM approach replaced pointless process with intelligent discussion.

The ILM did not invent anything new but rather tapped into a rich vein of people wanting to use their common sense rather than simply comply with entrenched processes. By starting with a focus on the ends and not the means, the ILM releases a powerful yet simple approach to front-end shaping and decision-making.

## 5. Consensus-building and peer production

The ILM approach is characterised by consensus-building and peer production both in its development stage and in its implementation.

### PEER PRODUCTION IN ILM DEVELOPMENT

The development of the ILM was itself made possible through a peer production process. Over a period of four years, the team at DTF conducted 'skills sharing and concept evolution' sessions that were attended by more than 2,000 people from across Australia and New Zealand. Participants were encouraged to stress-test the approach, pull it apart and contribute to its shaping. This process made sure the ILM was valid and could stand up to scrutiny. It also created buy-in. Participants owned the ILM as they were part of its development.

Having participants experience the value of the approach on the ground also drove voluntary take-up of the approach without having to mandate it. Natural selection has driven its rapid and widespread uptake. Those that use it are more likely to be successful in obtaining funding and delivering good outcomes. If the ILM does not work for someone or they do not see the value in it, then they do not need to use it.

### CONSENSUS-BUILDING THROUGH FACILITATED WORKSHOPS

The facilitated workshops are a critical component in reaching a shared understanding of the investment by the senior executives, key decision makers and those people most informed of the subject. As the workshops drive the success of the process, facilitators are trained and accredited. The standard of accreditation is set high to ensure a high level of skill. The cost of engaging an accredited facilitator is nominal in relation to the value they provide.

## 6. Realising benefits

### THE SECRET LIES IN CAUSE AND EFFECT

Articulating benefits clearly is not an easy exercise. The secret lies in arriving at a sound understanding of the problem that requires action — what has caused it and what effect is it having. Hard evidence is required to validate the stated problem as a fact. Responding to the effect will identify the benefits that are sought. The strategic interventions chosen are those that will best rectify the cause.

The benefits have to be of high value to the department and directly attributable to the intervention, i.e. without the intervention the benefits would not happen. Benefits need to be measurable. Clarity on benefits helps to sheet home accountability for delivering on the investment.

### A GOOD ILM MAKES SENSE TO A LAYPERSON

People often come to the ILM team and ask if their logic map is any good. What they are really asking is whether a particular investment is any good. That is a merits question which is for them to answer, it is not the role of the ILM tool.

Instead, the ILM team asks “Do you think this would make sense to a lay person?” It is a challenge for technical people to remain jargon free. The investment story needs to be told in plain English. The team has developed a set of 16 questions with a traffic light system that any decision maker should answer before being comfortable about proceeding with an investment.

## 7. Extending the ILM to higher levels

The ILM started out looking at individual investments but over time it became clear something more was needed to help make decisions on priorities between competing investment proposals.

The logic has been extended to looking at the policy drivers and problems confronting a particular department over a longer term horizon and identifying the high level benefits of addressing these. This helps establish a set of criteria for benefits that can be used to prioritise between investment proposals. This work should be done before particular business cases in a program area are developed. By doing this program-level work, departments have reduced the amount of their investments while still achieving the overall benefits and have avoided doing several projects aimed at addressing the same issues.

The process has moved up further to the organisational level to assess how effective the organisation is and to refocus it on what it could do better.

## 8. Evaluating effectiveness

With an approach focused on realising benefits, it comes as no surprise that the ILM has likewise been scrutinised as to its impact. Over 3,000 ILMs have been developed. There is strong adoption by the VPS, notably by the Department of Innovation, Industry and Regional Development, Victoria Police, Department of Human Services and the Department of Planning and Community Development. It has been a major advance in the ability of departments to make ranking and allocation decisions for investments. In addition, other governments across Australia and New Zealand have adopted the approach.

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

A follow up evaluation report was done in 2009 based on responses of departments who had used the ILM. On a range of criteria the ILM was considered better than previous practice, notably in shaping solutions to respond to government priorities, articulating and tracking benefits, making business cases more strategic and evaluating the effectiveness of the investment.

In addition, the ILM team has conducted surveys across the VPS to understand the impact that the ILM has had. Survey results show the approach is seen as valuable in:

- › assisting to define the problem
- › aiding investment decision making and prioritisation
- › developing better solutions
- › improving the quality and strategic nature of business case development
- › defining and tracking benefits delivery.