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Noetic Note

Investment Management

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"However beautiful the strategy, you should occasionally look at the results."

Winston Churchill

Introduction

Benefits realisation, *benefits management* and *investment management* are terms that are increasingly used by individuals and organisations. These terms, often used interchangeably, describe an approach that seeks to ensure the identified benefits for any type of expenditure or investment decision are both understood and, more importantly, realised. Noetic has adopted the term *investment management* because it encapsulates the *investment process* from the articulation of the business problem through to the harvesting of identified benefits of an investment. An effective *investment management framework*, therefore, provides a structured and rigorous approach that ensures the optimal return for any investment.

Various Commonwealth, state and territory government organisations have developed their own investment management (or equivalent) frameworks.

… only 5% of projects reported actual measurement of benefits…

In Noetic's experience, however, these methodologies are not widely understood or consistently applied in government organisations. For example, the Gershon Review (Gershon) into the use of information and communications technology (ICT) across the Australian Government in 2008 found only 5% of projects reported actual measurement of benefits and compared anticipated benefits with actual benefits realised.[1] Since Gershon, the Australian Government's *Gateway Review Process*, which provides oversight and governance of major projects and programs, continues to make a disproportional number of recommendations to improve business case and benefits realisation practices. For instance, only 9%

[1] Commonwealth of Australia, *Review of the Australian Government's Use of Information and Communications Technology*, August 2008.

of all gateway reviews were conducted at Gate 5 (benefits realisation) in 2009, however, these accounted for 31% of recommendations across all gateway reviews.[2] This is consistent with Noetic's findings from practical experience, which suggests that only a small percentage of government organisations have well-documented, understood and applied investment management frameworks.

Noetic has been at the forefront of developing and applying investment management frameworks for government organisations since 2005. This commenced with the Victorian Government, whose Investment Management Standard is the framework that Victorian Government departments now apply, and which other jurisdictions often reference as good practice. More recently, Noetic has been involved with Commonwealth and ACT Government departments and agencies in applying our Investment Management Framework to a range of investment proposals and budget decisions. Noetic's Investment Management Framework has been applied at a project, program and whole-of-organisational level, and across a broad range of initiatives ranging from social policy reform, new policy proposals, through to ICT and major capital works projects.

This Noetic Note presents what Noetic has observed and learned in the process of developing and implementing investment management. It also provides an overview of effective investment management practices to identify and realise benefits. Our observations and learnings are based on practical experience of working with government organisations to develop and implement investment management frameworks since 2005.

This Note will be most relevant to those organisations that recognise the need to realise the greatest return on the expenditure of money provided to them by government. Typically, these organisations understand that the investment decisions they make must return a tangible and measurable benefit that links to their agreed outcomes. These organisations are more likely to require evidence before making an investment, and demand evidence after the investment in order to harvest the dollar savings and productivity improvements from any given investment. This Note will therefore assist individuals within these organisations who are responsible for making investment decisions and those who develop investment business cases. We acknowledge that this Note is not an exhaustive commentary on all aspects of investment management. There are some observations and issues which have been explored in more depth than others. The Note aims to stimulate thinking, and most importantly, prompt action by those organisations that are seeking to improve the way they manage their investments.

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[2] Australian Government, Department of Finance and Deregulation, *Gateway Report – Lessons Learned Report (second edition)*, August 2009.

Why Bother?

The current focus on investment management is mainly being driven by increased pressure on government organisations to deliver efficiency dividends and optimise the effective use of scarce resources. There is also a growing emphasis within the public sector on applying leading management-practice frameworks to the business of government. As a consequence, many government organisations have developed their own frameworks or use commonly accepted methodologies such as *Managing Successful Programmes*[3], to better manage their investments. Despite this, in Noetic's experience, many government organisations do not effectively undertake investment management.

Organisations can benefit from a simple and robust investment management framework that allows them to understand the return on investment (both financial and non-financial) and ensures people are made accountable for delivering defined benefits. Government decision makers who achieve a 'line of sight' between expectations, delivery and the value realised from allocated resources gain a key advantage. This is particularly relevant for government organisations, given that many of their investments relate to the development of policy and provision of services which do not have immediately apparent and/or tangible benefits. On many occasions, Noetic has observed investment proposals where benefits are loosely defined and unmeasurable. Therefore, a simple investment management framework that applies rigour to the identification and realisation of benefits has the potential to provide significant advantages:

[3] Developed by the United Kingdom Cabinet Office, Managing Successful Programmes (MSP) is the co-ordinated organisation, direction and implementation of a portfolio of projects and activities that together achieve outcomes and realise benefits that are of strategic importance.

- **Prevent unnecessary expenditure.** Through the application of an evidence-based investment logic process, organisations are less likely to make unnecessary investments and more likely to identify those investments that deliver the greatest benefit to the business.

- **Push down costs.** Investment management lowers project costs. An independent study[4] found investment management reduced the costs of investments by up to 10% through better use of existing capabilities, collaborative investment in a single capability and focusing on investments that will deliver the greatest benefit for the cost.

- **Improve investment outcomes.** The same study found that investment management can increase the benefits of an investment by up to 20% through a sustained focus on business benefits across the organisation, and the identification, tracking and management of those benefits that deliver the greatest return on investment to the business.

- **Improve accountability.** An investment management framework assigns specific responsibilities for benefits reporting and realisation. Through the establishment of benefit benchmarks, targets and the necessary tracking and reporting mechanisms, those accountable are able to effectively manage the realisation of benefits.

- **Support a culture of efficiency.** A standardised investment management framework filters out unnecessary proposals as early as possible, devolves decision making down to the lowest appropriate levels, and drives efficiency throughout the investment process.

As government organisations are increasingly 'squeezed' by budgetary constraints, the pressure to implement investment management frameworks will increase. It is important to understand that making good investment decisions is not enough; only through effective investment management will wastage be reduced and benefits be maximised.

[4] Noetic understands that an independent KPMG study on the impact of investment management on the Victorian Government budget process conservatively estimated that the application of the methodology had driven down the costs of investments by 10% and resulted in a 20% increase in delivered benefits. Our consultation with the then Chief Information Officer of the Victoria Government revealed that the key to success has been the focus on the business logic of the investment, rather than managing projects in isolation of the business outcomes sought.

What Does ‘Good’ Look Like?

A useful way to think about investment management is to firstly break the investment process into three discrete stages—*investment proposal*, *investment decision* and *investment management*. The investment proposal stage considers the development of a proposal that outlines the problem and the benefits to the business of making an investment. The investment decision phase is concerned with prioritising and selecting those investments that are to proceed, while the investment management phase seeks to ensure identified benefits are realised.

In our experience, organisations that are well advanced in their approach to investment management will generally apply three overarching tenets for all stages of the investment process. These tenets are fundamental to the successful initiation, decision and management of any investment. These tenets require investment management practices to be:

+ **Simple.** Investment management must be as simple and practicable as possible if it is to be successfully implemented and sustained in busy and complex organisations.

+ **Risk-based.** Risks must be managed at all levels, from enterprise (strategic) down to the project level. A risk-based approach will both inform the development of investment proposals and enable the prioritisation of proposals. Investment management decisions need to take into account and understand the effect on the organisation as a whole when an investment is made (or not made as the case may be).

+ **Standardised.** Investment management processes should be codified in policies and procedures. There must be one methodology for all, and no exceptions to the rule. Standardised processes can be repeated, and accurately reported; the process can be easily communicated across the organisation; and staff effectively and efficiently up-skilled.

Noetic has identified a range of principles common to organisations that can be considered as leading investment management practices. When applied, these principles ensure alignment of investments that deliver, or contribute to the delivery of, stated organisational outcomes. The principles guide the design process through which an organisation can build its investment management framework. These principles are:

+ **Strategically focused.** Investments must align with the broad strategic focus required to achieve organisational and government-directed outcomes.

+ **Capability focused.** Investments must focus on the impact investment decisions have on the generation and sustainment of organisational capabilities. 'Capability' in this context has a specific meaning and refers to the ability of an organisation to deliver desired outputs, within a specified time and sustain these outputs over a required time.[5]

+ **Robustly costed.** While it may not be possible to cost every aspect of investment proposals, an investment management framework must inculcate a discipline that requires detailed costings across the full investment process, including any offsets. This discipline also extends to the concept of understanding the full costs (both initial and amortised) of providing the current goods or services. If a baseline cost model has not been established, then it is incumbent on the leadership team to establish one prior to considering an investment proposal. Robustly costed proposals will also improve decision makers' understanding of the return on investment by way of the benefits that will be realised.

+ **Evidence based.** Evidence is required to justify why an investment is actually needed. Investment proposals must be developed and managed on the basis of evidence to ensure that organisations make the right investments for the right reasons.

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[5] Capability in this context is distinctly different to the Australian Public Service Commission (APSC) Capability Model used as the frame of reference in Capability Reviews of Commonwealth Government organisations. APSC Capability Reviews take a high level view of the strategic operations of an organisation and provide an assessment in terms of leadership, strategy and delivery. The APSC model of capability is designed to be generic so that it can be broadly applied across the Public Service.

- **Considered holistically.** Investment decisions must be considered from an organisation-wide perspective and not in organisational silos. This principle is supported by adopting a capability-based approach to investment, which enhances an organisation's ability to consider investments from a whole-of-organisation perspective.

- **Transparent.** Investment proposals must be visible to all stakeholders in an organisation to ensure that synergies are realised and that duplication of effort is avoided. Equally, it is critical that the logic of investment decisions is evident to the organisation and well communicated to ensure confidence in the investment management process.

- **Devolved.** Authority must be devolved in order to empower staff. This will enable decisions to be made at the lowest appropriate level, ensuring that delays and wastage are minimised and that opportunities are exploited.

- **Disciplined.** Organisations must require that staff follow the discipline of process in order to ensure that the investment management process is allowed to work effectively and efficiently. Deviation from the accepted investment management framework should not be tolerated.

- **Prioritised.** It is unlikely that an organisation will be funded to the extent that all investment proposals can be fully resourced. As a result, an investment management framework must enable investment proposals to be prioritised to inform decision making and ensure that organisations realise the greatest benefit possible from the investment.

- **Accountable.** Staff must be accountable for decisions throughout the investment management process. This includes the effective management of benefits to ensure that they are realised. This aspect is essential if organisational learning is to occur.

- **Benefits realised.** Organisations must actively manage 'disbenefits' and realise benefits in a way that supports the achievement of strategic requirements. Where possible 'hard' benefits (dollars) identified should be harvested.

- **Constrained.** All investments must be constrained in order to reduce wastage. This includes defining 'measures of failure' in order to inform the termination of unsuccessful or unproductive investments.

Figure 1. Investment Management Stages and Key Steps

Investment proposal	Investment decision	Investment management
+ **Identify** the business problem and need for investment + **Engage** with key stakeholders to better understand the investment logic + **Define** a standard approach to describe benefits + **Evaluate** the proposed investment with an emphasis on the actual benefits that will be realised + **Summarise** the investment in an easily understood format	+ **Prioritise** through deliberate investment management practices and a common benefits 'lexicon' + **Invest** and develop a Benefits Management Plan to ensure the benchmark and target benefit measures are established	+ **Measure** whether the expected benefits are being realised + **Adjust** or cancel the investment if expected benefits are not being delivered + **Realise** benefits by active management of both benefits and project status + **Harvest** benefits by ensuring savings/benefits are factored into future plans and budgets

With these tenets and principles in mind, Figure 1 provides an overview of the key steps involved in effectively managing the investment management process. A mature investment management framework should therefore explicitly consider each of these steps. Each step is described in greater detail in Appendix A.

How 'Good' is Your Organisation?

The first step in improving investment management practices in your organisation is to develop an understanding of current strengths and weaknesses. The questions in Table 1 explore how well investment management is being implemented in an organisation. These questions are divided into an assessment of the design and content of an investment management framework (or equivalent) and the associated implementation of the framework throughout the organisation. We encourage organisations to undertake their own self-assessment against the questions contained in Table 1, compare the results against the maturity ranking in Table 2, and use this as the basis for identifying opportunities for improvement.

Table 1. Investment Management Self-assessment

Question	Self-assessment
Design and content of the investment management framework (or equivalent)	
Do you have an investment management framework in place for each proposed investment that:	
1. Considers the degree of alignment with strategic priorities and links to organisational outcomes?	☐ Yes ☐ No
2. Can be applied at the project, program and whole-of-organisation levels?	☐ Yes ☐ No
3. Outlines the logic for the investment and requires:	☐ Yes ☐ No
a. Evidence that an investment is needed?	☐ Yes ☐ No
b. A proposed solution that is linked explicitly to stated business objectives and includes consideration of the associated changes that need to occur within the business to realise the benefits?	☐ Yes ☐ No
c. Identification of common measureable benefits?	☐ Yes ☐ No
4. Succinctly summarises the logic for an investment in a way that allows decision makers to easily understand and compare investment proposals?	☐ Yes ☐ No
5. Differentiates between project management and benefits management?	☐ Yes ☐ No
6. Requires identified benefits to be measured throughout the life of an investment?	☐ Yes ☐ No
7. Requires the full lifetime cost of the investment to be understood and endorsed?	☐ Yes ☐ No
8. Actively manages the realisation of benefits through governance processes that ensure:	☐ Yes ☐ No
a. Regular investment reviews that consider both benefits management and project management status?	☐ Yes ☐ No

Question	Self-assessment
b. Benefits management plans are adjusted as circumstances are better understood and/or evolve including criteria for cancelling projects that will not deliver the expected business benefits?	☐ Yes ☐ No
9. Allows benefits to be harvested or re-invested as they are realised?	☐ Yes ☐ No
Implementation of the investment management framework (or equivalent)	
Do you have an investment management framework that is:	
10. Well documented including policy, practical guidance, templates and exemplars?	☐ Yes ☐ No
11. Widely understood across all levels within the organisation through formal training and regular application?	☐ Yes ☐ No
12. Rigorously and consistently adhered to throughout the organisation through formally defined roles and accountabilities for investment management?	☐ Yes ☐ No
13. Integrated into enterprise management systems and processes including:	☐ Yes ☐ No
a. Investment decision making governance?	☐ Yes ☐ No
b. Strategic planning and guidance?	☐ Yes ☐ No
c. Financial management and budgeting?	☐ Yes ☐ No
d. Enterprise risk management?	☐ Yes ☐ No
e. Project management?	☐ Yes ☐ No
f. Asset management and withdrawal/disposal?	☐ Yes ☐ No

Table 2 provides an indicative ranking of the maturity of an organisation's approach to investment management and the recommended next steps based on the self-assessment. To determine the maturity ranking, total the number of 'Yes' responses in Table 1 above, and match this against the appropriate maturity ranking.

Table 2. Investment Management Maturity Ranking

Total	Maturity Ranking
20 – 24	**Leading Edge Capability.** Your investment management practices are very mature and it is likely you are an industry leader. You should consider addressing any deficiencies identified through the self-assessment, but be careful not to disrupt what is likely to be a very effective investment management framework.
15 – 19	**Proficient Capability.** Your organisation has a well-designed investment management framework that includes the most necessary components. The areas for improvement identified through the self-assessment provide some insights into how you can extract even more value from investment management practices.
10 – 14	**Developing Capability.** There are signs that you are developing an effective investment management framework. However, there are some deficiencies that should be addressed. It is likely that these improvements can occur incrementally and these steps will result in a significant increase in investment management capability.
6 – 9	**Limited Capability.** There are limited signs of an investment management framework or your existing framework is ineffective. It is likely that a redesign of your investment management practices is needed to ensure that all necessary components are included and you are extracting maximum value from the investment process.
0 – 5	**Little to No Capability.** It is likely that you have no investment management framework. Your organisation could benefit significantly from the development and implementation of a new investment management framework based on leading practice approaches.

Next Steps in Improving Investment Management Practices

The self-assessment provides insights into where an organisation may be able to improve its investment management practices. For those organisations that do not have an investment management framework, or where the self-assessment identified significant shortcomings, there is probably a need to review and/or develop such a framework. The *'What Does 'Good' Look Like?'* section of this Note provides some overarching guidance about what is required in such a framework. This includes an investment management framework that is simple, risk-based and standardised, and accords with a set of principles to ensure alignment of investments with stated organisational outcomes. The self-assessment provides essential insights into the specific areas for improvement in an existing framework.

Noetic's experience suggests that there are a number of common pitfalls that organisations need to be mindful of when developing or revising investment management frameworks, including:

+ Investment management often fails as a discipline due to a lack of senior leadership support and buy-in. It is all too common that an investment management framework is developed with the best of intentions, but ends up sitting on a shelf because senior leadership is not committed to its implementation. Managers therefore need to be unified and actively manage and mandate its implementation and ongoing use.

+ Government organisations do not always dedicate sufficient time and resources to ensuring that staff and other stakeholders have the capacity to effectively employ the investment management framework. This can be facilitated through an accreditation process for staff that includes up-front training and on-the-job assessment, supported by ongoing development opportunities. As investment management needs to be applied consistently across an organisation, the training and accreditation process needs to be applied just as extensively, including senior executives, line managers, project managers, contract managers, finance practitioners etc.

+ Other stakeholders such as senior managers and participants in the investment management process do not understand their role throughout the investment management process. These stakeholders need to have clearly defined roles and accountabilities, ranging from expectations of process participants to specific responsibilities of key individuals for realising benefits.

It is unlikely that there is an off-the-shelf investment management framework ready and appropriate for the unique needs of most organisations. Therefore, organisations need to develop a framework, or shape an existing methodology, to suit their needs and where possible incorporate their existing systems and processes. A customised and well-integrated framework will increase the likelihood that it will be effectively implemented and used throughout the organisation. This will ultimately assist government organisations to avoid unnecessary investments and costs, and improve investment outcomes through improved benefits realisation, while driving accountability and efficiency in investment decisions.

Myth Busting

There are a number of 'myths' or commonly held beliefs that Noetic has observed relating to the establishment of investment management frameworks:

+ **It is too expensive.** A modest investment, properly focused on building internal organisational capacity and leveraging accepted investment management frameworks, can dramatically improve an organisation's ability to make better investment decisions. Independent studies have shown investment management can drive down costs and increase the likelihood of delivering expected benefits.

+ **Some benefits are too hard to measure.** An effective benefits classification framework can provide the guidance required to quantify any benefit. Benefits are not just measured by dollars and numbers—percentages and binary values for example can be used to measure benefits.

+ **Benefits will just materialise.** Benefits need to be actively measured and managed to ensure that they are in fact realised and can be harvested at an appropriate stage.

+ **We are not ready for it.** An effective investment management framework can be implemented in any organisation because of its simplicity, flexibility and, importantly, its grounding in common-sense principles.

+ **It should only be used for ICT investments.** While investment management was initially applied to ICT investments, it can be used across all investment types, ranging from research and development, to policy implementation and equipment acquisition.

Conclusion

Robust and quantifiable investment management is becoming increasingly important as government organisations seek more rigour in articulating the business benefits in investment proposals. Unfortunately, the vast majority of government organisations do not do this in a consistent and organised manner, and certainly do not track, actively manage, or harvest identified benefits. Additionally, many organisations do not fully understand the costs they will incur throughout the life of an investment. These organisations also often state that they are not ready or mature enough to take such a step. On the basis of our experience, Noetic contends that getting startred, or improving existing practices, do not require a massive 'leap of faith over an abyss'—the steps are relatively simple and based on common sense. This is demonstrated by the implementation of the Victorian Investment Management

Standard, which is now applied to all major Victorian Government investments, ranging from individual projects to measuring whole-of-organisation strategies.

This Note shares some of Noetic's insights on investment management, gained from almost a decade of experience working with government organisations in this area. We believe that an effectively implemented investment management framework will enable government organisations to improve the way investments are managed from proposal development through to the harvesting of benefits. The self-assessment contained within this Note provides a 'window' through which organisations can critically examine their approach, systems and processes for investment management.

There is no doubt that financial pressure on government organisations will continue to increase. Striving to get the most from every dollar is forcing organisations to rethink the manner in which investment decisions are made to ensure that intended business benefits are realised. Government organisations that are not thinking in this way risk being left behind, particularly as central government agencies are mandating increased accountability to identify and deliver benefits. Investment management is not just another fad—it is common sense and will become increasingly embedded in the way governments undertake business.

Appendix A

A Framework for Better Managing Investments

This appendix details each of the key stages of the investment management framework presented earlier in Figure 1.

Investment Proposal

Identify

Many organisations are guilty of spending significant effort on developing investment proposals without effectively understanding the business problem, current operating costs and identifying the need for an investment. Noetic has seen this on many occasions—when an organisation is asked why an investment is required, they are unable to provide strong evidence of a business problem and need for investment. A common response is 'We need to undertake this investment because the current system is broken'. When asked for specifics (i.e. the evidence or data) the individuals championing the investment are invariably forced to admit that the system is working sub-optimally, rather than not at all. The investment may still be required, but through better problem definition, different solutions may become evident. A key element in effectively developing proposals is to understand the business problem based on tangible evidence and by better defining business needs. Organisations therefore need to better understand the baseline costs and performance metrics of the existing system. This may include systematically recording errors or failures of existing processes and systems to assist decision makers when an investment proposal is being considered.

Engage

Another common issue is the considerable level of effort put into developing a proposal prior to engaging key stakeholders. In some cases, stakeholder input is only sought when the investment is considered for decision. Stakeholder input can dramatically change the nature of the investment, or the business case that supports it. As such, this can result in a large amount of reworking, significantly delaying a decision, or in the case where the proposal is not supported, the effort having been entirely wasted. Additionally, engaging with stakeholders too late can also lead to a cognitive bias where the proposal's developer is dismissive of any feedback due to the sunk costs that have already been invested in developing the proposal. Engaging key stakeholders up-front can save significant staff effort and leads to better considered proposals.

Define

Articulating the benefits of undertaking an investment is a major area of weakness in most proposals. In general, benefits are expressed as either broad descriptions or an exhaustive list. Often this expression of benefits makes them unmeasurable and as such disqualifies them as benefits—***if they cannot be measured, they are not benefits***. Additionally, benefits are often described in different ways, which does not facilitate comparison between investments. What is required is a standard 'lexicon' to describe and quantify agreed benefits across an organisation. Noetic employs a *Benefits Classification Framework* that provides a common set of benefit categories and key performance indicators (KPIs) that can be used for all investment proposals to ensure the integrity, comparability and measurability of benefits.

Evaluate

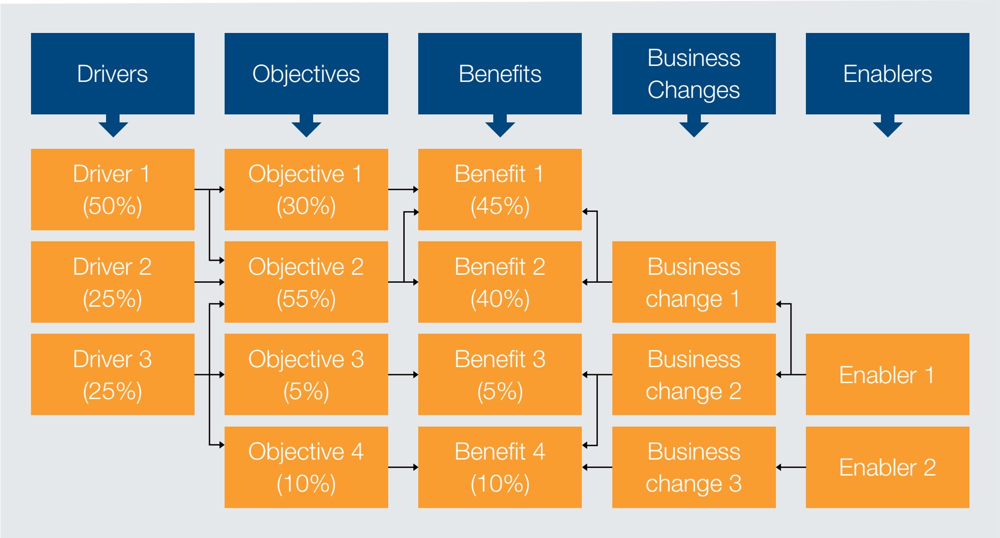
Many investment proposals are developed around a preconceived idea or solution rather than evidence and metrics. This often amounts to retrofitting a proposal to fit a preconceived idea rather than developing a solution based on logic or defensible data that outlines evidence of a problem and defines business needs. The basis for viewing any investment proposal should be an identified need and a consideration of the likely benefits that the investment would deliver to the business. Government organisations therefore need to conduct a detailed evaluation of the actual benefits that will accrue from an investment and the current costs to be retired. This involves utilising a common benefits classification framework (outlined above) to identify benefits, and then defining the necessary KPIs and metrics to track the realisation of those benefits. Benefit metrics such as KPIs, benchmark values, target values and realisation timeframes can be documented in a Benefits Management Plan that accompanies an investment proposal or business case.

"That's what I want to say. See if you can find some statistics to prove it."

Summarise

Business cases can be large documents that often do not concisely and easily convey the business need, solution options and benefits of a particular investment. It has been Noetic's experience that using an Investment Logic Map (ILM)[6], which provides a high-level single page graphical representation of the investment, is immensely powerful in conveying such understanding. Additionally, the ILM provides a level of comparability between business cases. The key components of an ILM are provided in Figure 2.

Figure 2. Investment Logic Map and its Components



- **Drivers.** The reasons for undertaking the investment (i.e. the external pressures or forces that require a response from an organisation). Evidence is required to justify each driver.
- **Objectives.** The organisation's response to the drivers. These are the high-level aims/goals/aspirations of the investment (and are therefore based around project management principles). If objectives are achieved, the investment has adequately responded to the threat, risk or opportunity posed by the drivers.
- **Benefits.** The benefits are the advantages gained by the organisation's objectives being achieved. If an objective is satisfied, benefits will flow to either the organisation (enabling benefits) or external stakeholders (outcome benefits). Benefits must be real and measurable.
- **Business Changes.** The key changes that must occur within the organisation in order to accrue the intended benefits. To achieve any benefits, someone has to do something differently. That someone can be a member of the organisation or an external stakeholder. The something can be any activity that is performed.
- **Enablers.** There must be an enabler that will lead to the realisation of a benefit. These are the actual outputs of the investment (e.g. an ICT system).
- **Weightings.** Percentage weightings are applied to each of the drivers, objectives and benefits. They allow assumptions to be challenged and test whether the investment is reasonable in relation to other ILM elements.

[6] The ILM was developed in conjunction with the Victorian Government Office of the Chief Information Officer in 2005.

Investment Decision

Prioritise

One of the most vexing processes organisations regularly undertake is budgeting. Most, if not all, government organisations are faced with more investment proposals than they can afford, which necessitates prioritisation. Noetic's experience is that many organisations struggle to effectively prioritise investments mainly because they lack a robust framework and the discipline to do so. As such, it is often the loudest and most convincing voice at the table that wins out, rather than the investment proposal that delivers the greatest benefit.

An effective investment management framework allows prioritisation, as it provides a clear 'line of sight' from the evidence that there is a need for an investment through to the business benefits that are expected. More importantly though, the use of a common lexicon for describing business benefits allows some level of comparability between investments (and indeed between solutions for the same identified need). A Benefits Classification Framework enables 'apples to be compared with apples'.

Invest

The decision to invest almost always results in a project plan being developed. Rarely however, does it result in a Benefits Management Plan being developed, even though benefits may have been identified in the investment proposal. Where benefits management plans are developed they often lack identified benchmarks (the current state) and targets (the desired future state). Without benchmarks and targets, it is impossible to determine whether an investment is delivering the business benefits that are the rationale for making the investment decision. It is worth noting that the intended benefits are rarely realised without active management of the associated business changes that are required in order to deliver the greatest benefits (those benefits with the highest percentage loading in the ILM).

Measure

Benefits management plans typically provide the basis for measuring whether an investment's expected benefits are being realised. However, the vast majority of organisations fail to implement these plans effectively. This can occur for a range of reasons, including the absence of baseline measurements, inadequate resourcing dedicated to measurement, and a lack of discipline and accountability for both measuring and realising the expected benefits. It is Noetic's view that organisations need to establish two levels of accountability. The 'investor' needs to be held accountable for ultimately realising the identified business benefits, while someone else needs to be tasked with their ongoing measurement. An effective way to ensure these responsibilities are being met is to schedule regular and ongoing investment reviews to report on benefit realisation (adherence to achieving the identified benefits) and project management status (adherence to scope, budget and timeframe). These investment reviews should continue until the benefits have been realised, rather than ending as part of project closure. This is because benefits are often realised sometime after the project has been completed and the necessary business changes have matured.

Adjust

Investment reviews provide a mechanism to evaluate whether expected benefits are being realised throughout an investment's lifecycle. It is Noetic's observation that government organisations are not effective in adjusting the components of an investment when the expected benefits are unlikely to be realised, and indeed, it is very rare that an investment will be cancelled entirely. This is because government organisations find it difficult to ignore the sunk costs associated with any given investment and fail to identify 'measures of failure' for an investment. As such, it is critical that organisations are prepared to adjust, and if necessary cancel, a given investment based on the data that is provided on the status of an investment and its associated benefits. One way that investors can further build process and discipline into investment reviews is by establishing benefit targets at set intervals throughout the investment's life. Decision criteria can also be included to provide the organisation with guidance on what action to take based on the deviation from a benefit's expected target.

Realise

As outlined previously, only a few organisations compare the expected benefits of an investment with the actual benefits realised. Organisations tend to rely on more readily available measures such as project management status (scope, budget and timeframe). However, project management and investment management are very different processes and need to be treated as such. Delivering a project on-time, to budget and within scope does not guarantee that the expected benefits have been realised. Conversely, an investment may have delivered its expected benefits, but because of project overruns, the benefits may no longer outweigh the associated costs. It is therefore essential that investors focus both on benefits realisation and project status. This is demonstrated in the following example for the construction of the Sydney Opera House.

The project was a failure, but was it worth it?

> The construction of the Sydney Opera House was a failure from a project management perspective on just about all accounts. It is well known that the Sydney Opera House was expected to be built in four years for an estimated cost of $7 million. However, it took approximately fourteen years to build at a cost of over $100 million. If you were simply to view this from a project management perspective, it was a complete failure. The Sydney Opera House has, however, become a national icon, delivering substantial economic and social value to Australia. So was the investment worthwhile? One can only tell by viewing the investment from both a project management and investment management perspective.

Harvest

One of the final and most difficult steps in implementing a mature investment management framework is harvesting the benefits that are realised. It is not enough to simply measure and realise the expected benefits. For example, an investor may implement a new ICT system which will provide productivity gains equivalent to two full-time staff. Unless those two full-time equivalents are removed from future budgets, the benefits of the investment will have been realised but not harvested. Because harvesting benefits often materially impacts budgets, and ultimately holds people accountable for the benefits they 'signed up to' in the investment proposal, it can be one of the most difficult steps to undertake in the investment management process. It is however, essential if an organisation is truly committed to realising the benefits from any given investment.

About the Authors

Andrew Balmaks

Andrew is the Chairman and one of the founders of the Noetic Group. He has over 30 years of experience as a leader, manager and strategic planner. He has worked with senior leaders across government organisations in Australia, Asia, the United States, Britain and the Middle East. Andrew has extensive experience in strategic concept and policy development, futures planning and training.

Andrew was the key architect in developing Noetic's Investment Management Framework and helped design and refine the Victorian Government's investment management approach in 2005. Since then Andrew has led the development and refinement of investment management as Noetic's intellectual property, which has been successfully applied to a range of government departments/agencies at the Commonwealth, state/territory and local levels.

Anthony McGinness

Anthony is the General Manager of Noetic's NSW Business Unit. He has 10 years experience working with government organisations, understanding their most complex problems and developing and implementing innovative solutions. Anthony has a refined and diverse practical and strategic skill set based on extensive experience in strategic planning, organisational review, investment management, program evaluation and information and communications technology consulting.

Anthony is Noetic's investment management capability leader. He has extensive experience developing and implementing investment management frameworks across all levels of government in Australia. He has successfully applied Noetic's Investment Management Framework to proposed investments and established customised investment management frameworks for government organisations. Anthony has also applied investment management across a range of organisational levels and applications, from individual projects to the whole-of-organisation level.

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