

KNOWLEDGE

SIGNATURE INSIGHTS FROM NOETIC GROUP

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INVESTMENT MANAGEMENT

A proven approach to realising public value

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**“However
beautiful
the strategy,
you should
occasionally
look at the
results.”**



WINSTON CHURCHILL

INTRODUCTION

In order to deliver public value, there is a need for organisations to optimise the use of their scarce resources. This Noetic Knowledge is for people in organisations who make investment decisions and for those who develop business cases. In our experience, not all organisations understand how to apply, and measure their investment. Since 2005, our framework for managing investments, and particularly our one page Investment Logic Map (see page 24) have both been utilised extensively. Numerous organisations have used them to correctly identify their problem, make clear business cases, and develop solutions that can be clearly measured and evaluated. Our Investment Management Self-Assessment and related Maturity Ranking (pages 14 and 16) provide organisations with insights as to where they can improve their investment management frameworks.


Investment management is often also known as benefits realisation or benefits management. These terms are often used interchangeably, and they describe an approach that seeks to ensure that the identified benefits for any type of expenditure or investment decision are not only understood but, more importantly, realised. Noetic has adopted the term investment management in the government and non-government sectors to promote the capture of public value across the entire investment lifecycle. Investment management encapsulates the investment process from the definition of the business problem through to the harvesting of identified benefits. An effective investment management framework provides a structured and rigorous approach that ensures the optimal return for any investment.

Noetic has been at the forefront of developing and applying investment management frameworks for government and non-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. Noetic has since worked with Commonwealth, ACT, NSW and SA Government departments/agencies and a range of not-for-profit organisations in applying our Investment Management Framework to a range of investment proposals and budgeting decisions. Noetic's Investment Management Framework has been applied at a project, program and whole-of-organisation level, and across a broad range of initiatives ranging from social policy reform and new policy proposals, through to major capital works, and equipment and information and communications technology (ICT) acquisition projects.

This Noetic Knowledge presents what Noetic has observed and learned in the process of developing and implementing investment management frameworks since 2005. It also provides an overview of effective investment management practices to identify and realise benefits.

This publication aims to stimulate thinking, and most importantly, prompt action by those government and non-government organisations seeking to improve the way they manage their investments to deliver public value.

Please note: we will refer to government and non-government organisations simply as ‘organisations’ throughout the remainder of this report.



Only **5%** of projects
REPORTED ACTUAL
measurement
of **BENEFITS**¹

The infographic features a dark blue background. On the left side, there is a decorative pattern of white diagonal lines that form a grid-like structure, tapering off towards the bottom left. The text is positioned on the right side of this pattern, with 'Only' in a smaller font above a large '5%', followed by 'of projects' in a smaller font. Below this, the words 'REPORTED ACTUAL' are in all caps, followed by 'measurement' in a larger font, and 'of BENEFITS' in all caps with a superscript '1'.

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

WHY BOTHER WITH INVESTMENT MANAGEMENT?

Many organisations have frameworks to better manage their investments. However, in Noetic's experience, not all of them undertake investment management effectively.

This lack of maturity in investment management practice is not through lack of trying. It is not a simple task to identify, measure and realise benefits from investments that deliver public value outcomes. There are a number of complexities the public and not-for-profit sectors face. Primarily, the diverse range of stakeholders that span the general public, specific clients/beneficiaries, elected representatives and senior bureaucrats each with their competing demands, make investment decision making difficult. Furthermore, the ability to secure the required resources for any investment often comes down to a crafted narrative about public value, as opposed to any clear impact on the financial bottom line (which the private sector has the luxury of considering first and foremost). But perhaps one of the greatest difficulties organisations face is to attribute the realisation of an outcome to an investment, particularly where there is a significant time lag between investment and the outcome being realised.

These challenges mean that organisations often default to tracking activities and outputs, given that they are more tangible and easily measured. In some cases, organisations will utilise 'proxy' or 'indirect' measures such as client satisfaction which often fails to directly measure the public value created through the provision of a service. This is evident if one were to examine the measures in Commonwealth Government Portfolio Budget Statements. Many of these are output based measures which do not provide a holistic or attributable assessment of departmental and agency performance.

In the last few years, Noetic has noted increased interest by government organisations in applying program logic and outcomes based reporting, both for enterprise governance/performance reporting, and in contracting service providers to deliver outcomes (as opposed to outputs or activities). However, there is significant room for improvement and this approach needs to be more consistently applied.

Organisations would derive significant benefit from a simple and robust investment management framework that allows them to understand the public value, or return on investment (which can be both financial and non-financial), and ensure that people are made accountable for delivering identified benefits. Decision makers who achieve a 'line of sight' between expectations, delivery and the value realised from allocated resources can gain the following key advantages:

(continued over)

+ Prevent unnecessary expenditure

Ensuring there is a business problem to be solved and interrogating the underlying evidence-base will mean organisations are more likely to avoid unnecessary investments.

+ Push down costs

Investment Management lowers project costs. An independent study 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.²

+ 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.

+ Best use of scarce resources

Organisations rarely have the resources required to support all investment proposals. A thorough investment prioritisation process ensures that the investments that are likely to deliver the greater public value will be funded.

+ 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.

2. Noetic understands that an independent KPMG study on the impact of investment management on the Victorian Government budget process 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 had been the focus on the business logic of the investment, rather than managing projects in isolation of the business outcomes sought.

WHAT DOES GOOD INVESTMENT LOOK LIKE?

A useful way to think about investment management is to first 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 that 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.

+ Value-based

Investments must deliver tangible and measurable value to the public. This can take many forms, from better managing key internal enterprise (strategic) risks, to defining the effect the investment will have on the organisation, to offering a new product or service to customers and citizens that delivers measurable benefits which align with government policy and/or organisational objectives.

+ 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 can be 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 contribute to, or in themselves deliver, stated organisational outcomes and public value. 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 contribute to the capabilities the organisation requires to undertake its defined purpose. This may include the generation of new capabilities or sustaining existing ones.

+ Robustly costed

An investment management framework requires investments to be costed across the full investment process, including any offsets and whole-of-life costs. Robustly costed proposals will improve decision makers' understanding of the return on investment by allowing intended benefits to be compared to estimated costs.

+ Evidence based

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

+ 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.

+ 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.

+ 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.

+ 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

- + **Identify**
the business problem and need for investment
- + **Engage**
with key stakeholders to better understand the investment logic
- + **Define**
the desired public value drawing on a standard approach to describe benefits
- + **Explore**
options that are available to realise the defined benefits
- + **Summarise**
the preferred solution in an easily understood format

INVESTMENT DECISION

- + **Optimise**
the portfolio of investments through a simple, objective score-based prioritisation model
- + **Invest**
and develop a benefits management plan for funded investments to ensure the benchmark and target public value measures are established

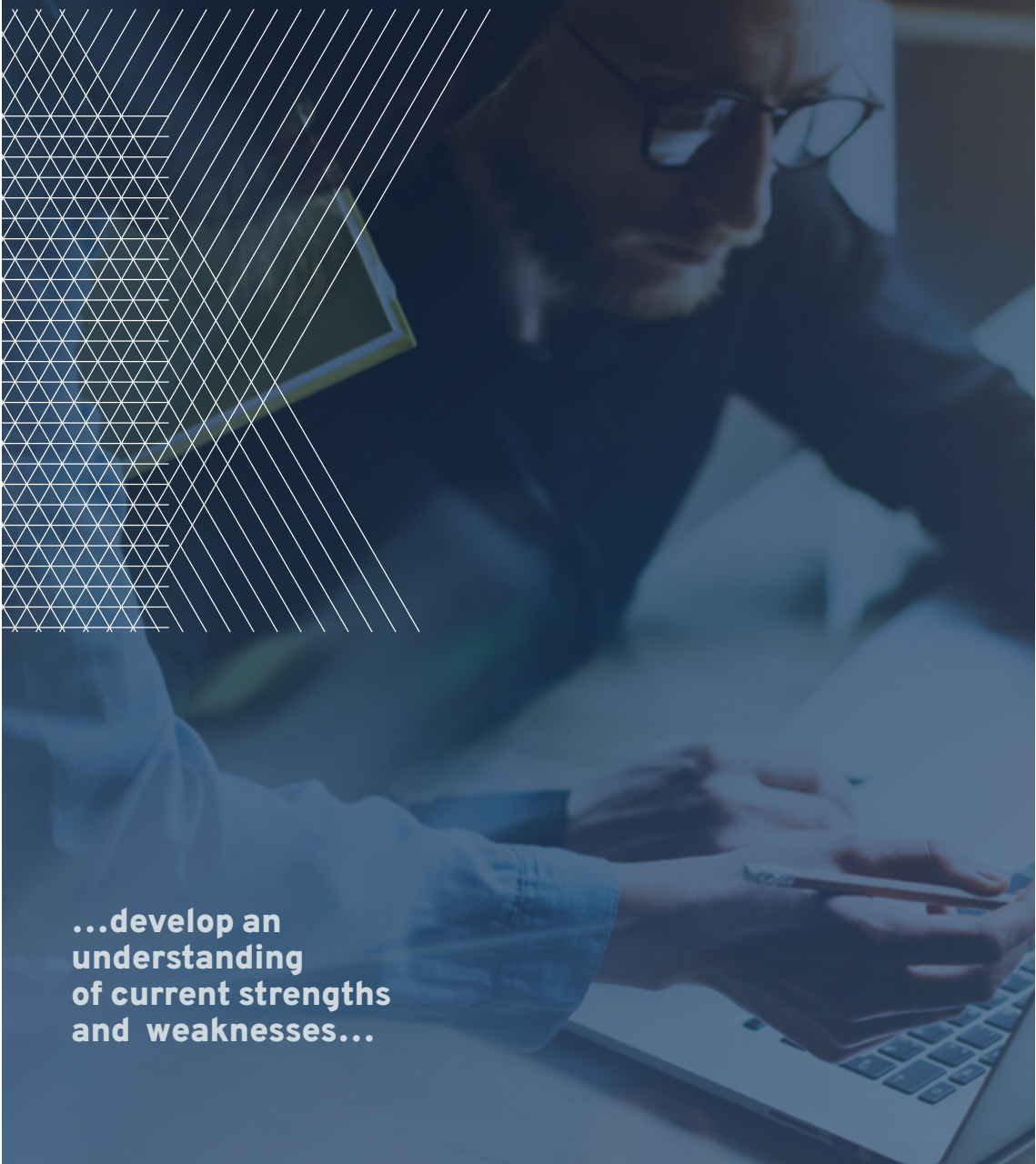
INVESTMENT MANAGEMENT

- + **Measure**
whether the expected benefits are being realised
- + **Adjust**
or cancel the investment if expected benefits are not being delivered
- + **Define**
the desired public value drawing on a standard approach to describe benefits
- + **Realise**
options that are available to realise the defined benefits
- + **Harvest**
the preferred solution in an easily understood format

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 AT INVESTMENT MANAGEMENT?

A logical 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 assess 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.



...develop an
understanding
of current strengths
and weaknesses...

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?	<input type="checkbox"/> Yes <input type="checkbox"/> No
2. Can be applied at the project, program and whole-of-organisation levels?	<input type="checkbox"/> Yes <input type="checkbox"/> No
3. Outlines the logic for the investment and requires:	
a. Evidence that a business problem, its root causes and commensurate effects have been well-defined and justify the need for investment?	<input type="checkbox"/> Yes <input type="checkbox"/> No
b. An exhaustive assessment of possible options to realise the intended benefits, including changing supply and demand, and/or improving productivity of existing assets/arrangements?	<input type="checkbox"/> Yes <input type="checkbox"/> No
c. An exhaustive assessment of possible options to realise the intended benefits, including changing supply and demand, and/or improving productivity of existing assets/arrangements?	<input type="checkbox"/> Yes <input type="checkbox"/> No
d. Identification of common measurable benefits that explicitly deliver public value?	<input type="checkbox"/> Yes <input type="checkbox"/> No
4. Succinctly summarises the logic for an investment in a way that allows decision makers to easily understand and compare investment proposals?	<input type="checkbox"/> Yes <input type="checkbox"/> No
5. Ranks the investment against other organisational priorities and investments using a robust, subjective and score-based prioritisation mechanism?	<input type="checkbox"/> Yes <input type="checkbox"/> No
6. Differentiates between project management and benefits management?	<input type="checkbox"/> Yes <input type="checkbox"/> No
7. Requires identified benefits to be measured throughout the life of an investment?	<input type="checkbox"/> Yes <input type="checkbox"/> No
8. Requires the full lifetime cost of the investment to be understood and endorsed?	<input type="checkbox"/> Yes <input type="checkbox"/> No

QUESTION

SELF-ASSESSMENT

9. Actively manages the realisation of benefits through governance processes that ensure:

a. Regular investment reviews that consider both benefits management and project management status? ☐ Yes ☐ No

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

10. 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:

11. Well-documented including policy, practical guidance, templates and exemplars? ☐ Yes ☐ No

12. Widely understood across all levels within the organisation through formal training and regular application? ☐ Yes ☐ No

13. Rigorously and consistently adhered to throughout the organisation through formally defined roles and accountabilities for investment management? ☐ Yes ☐ No

14. 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

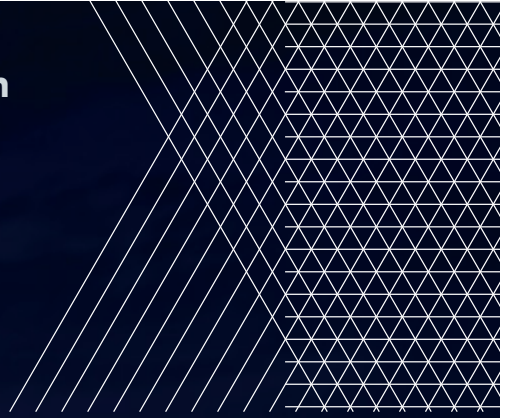
15. Supported by an end-to-end digital platform that integrates business planning, investment prioritisation, enterprise risk management, project and program management and the measurement and realisation of public value? ☐ Yes ☐ No

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.

...principles guide the design process through which an organisation can build its investment management framework.



NEXT STEPS TO 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.

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.
- + 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 should involve senior executives, line managers, project managers, contract managers, finance practitioners etc.
- + People do not understand their role and responsibilities throughout the investment management process. Clearly defined roles and accountabilities, ranging from expectations of process participants to specific responsibilities of key individuals for realising benefits should be articulated.
- + Organisations tend to over-engineer and over-complicate the design of their investment management frameworks. This can make frameworks difficult to use and ultimately impacts the ability to make informed decisions. For instance, organisations often look for investment tools and guidance to provide complex calculations to determine costs, benefits and prioritisation decisions, which makes it nearly impossible for busy executives to meaningfully engage with the framework and have an informed debate around the merits of an investment.

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 organisations to avoid unnecessary investments and costs, and improve investment outcomes through better 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:

+ 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.

+ 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.

CONCLUSION

Robust and quantifiable investment management is becoming increasingly important. Organisations seek more rigour in articulating and capturing public value from their investments to tell a story about enterprise level performance. Unfortunately, the vast majority of 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 started, or improving existing practices, does not require a massive ‘leap of faith over an abyss’ — the steps are relatively simple and based on common sense.

This publication shares some of Noetic’s insights on investment management, gained from over a decade of experience working with government organisations in this area. We believe that an effectively implemented investment management framework will enable organisations to improve the way investments are managed from proposal development through to the harvesting of benefits. The self-assessment contained within this publication 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 and non-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 public value is captured. 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 measurable benefits and outcomes. Investment management is not just another fad — it is common sense and will become increasingly embedded in the way organisations undertake business.



**...Investment management
is becoming increasingly
important as organisations
seek to tell a robust
story about enterprise
level performance.**

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 wasting significant effort on developing investment proposals without effectively understanding the business problem, current operating costs and identifying the need for an investment. In doing so, there is a need to get to the root causes of a problem so that identified solutions address the systemic issues rather than the symptoms. 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 of 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. A standard lexicon is required to describe and quantify agreed benefits across an organisation.

Noetic employs a Benefits Classification Framework that provides a common set of benefit categories linked to the public value the organisation seeks to deliver, and outlines key performance indicators (KPIs) that can be used for all investment proposals to ensure the integrity, comparability and measurability of benefits.

Explore

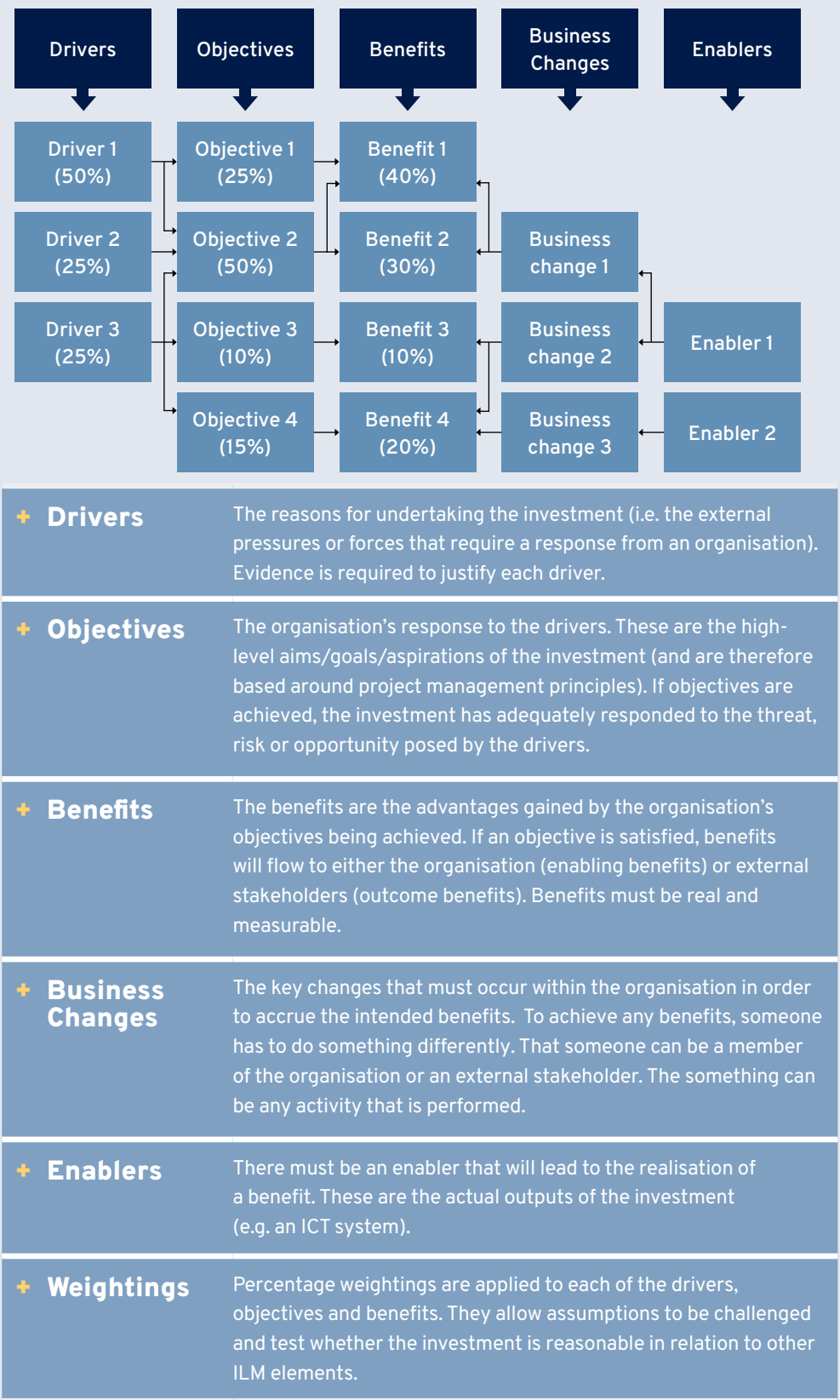
Many investment proposals are developed around a preconceived idea or solution rather than evidence and metrics. This often amounts to retrofitting a proposal to suit a preconceived idea rather than developing a solution based on logic, defensible data that outlines evidence of a problem, and robust identification and analysis of alternative investment options. The basis for viewing any investment proposal should be an identified need and consideration of the various options available to deliver the intended benefits that the investment would deliver to the business. Noetic has found that an explicit requirement to consider supply, demand and productivity levers is an effective way of exhausting all possible options available to deliver the intended benefits. For instance, instead of simply building a new road to improve traffic flow (a supply based option), government should also consider the merits of investing in public transport (to reduce demand) and building a new lane on an existing road (to optimise the productivity of an existing asset). Organisations therefore need to conduct a detailed evaluation of the actual benefits that will accrue from these various investment options and the relative costs in doing so before arriving at a preferred solution.

Summarise

Business cases can be large documents that often do not concisely and easily convey the business need, proposed solution (based on the exploration of options previously) and benefits of a particular investment. It has been Noetic's experience that using an Investment Logic Map (ILM), which provides a high-level single page graphical representation of the investment, is immensely powerful in conveying such understanding.³ Additionally, the ILM provides a level of comparability between business cases. The key components of an ILM are provided in Figure 2.

3. The ILM was developed in conjunction with the Victorian Government Office of the Chief Information Officer in 2005 and the Investment Concept Brief was subsequently introduced into the *Victorian Government's Investment Management Standard*.

Figure 2. Investment Logic Map and its components



Noetic also regularly accompanies the ILM with an Investment Concept Brief (ICB) which further defines a proposed solution to the business problem. An ICB is typically 2-4 pages in length and summarises the key components of the solution, such as:

+ Context

Why this investment should be considered.

+ Policy alignment

The primary policy or organisational outcome to which the investment would contribute.

+ Timeframe

The time intervals for each key deliverable.

+ Risks

The primary risks to the success of the investment (description, consequence, likelihood).

+ Critical dependencies

Critical dependencies associated with the investment.

+ Costs

Likely costs (business changes or enablers) and funding sources.

+ Initiator

The senior person ultimately responsible for delivering the identified benefits.



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

INVESTMENT DECISION

Prioritise

One of the most vexing processes organisations regularly undertake is budgeting. Most, if not all, 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 public value.

Noetic has developed customised investment prioritisation models for a range of organisations to achieve sound, consistent investment decisions based on a structured prioritisation process and agreed criteria to maximise investment value. Noetic uses a range of guiding principles that are typically confirmed and modified as required before developing a prioritisation model:

- ✦ **Simple**

Investment prioritisation should be made as simple as possible, while catering for the varying levels of complexity at which investment is made by an organisation.
- ✦ **Objective**

Investment prioritisation needs to reach a workable balance between achieving maximum objectivity through score-based assessment and moderation where possible, while recognising the need for subjectivity when and where required.
- ✦ **Score-based, but human-led**

Prioritisation decisions should be informed by scores attributed to prioritisation criteria; however the process of prioritisation and determining final priorities is led by executives and will be informed by their experience, intuition and comprehensive understanding of their own business, that cannot be fully captured by 'scores'.
- ✦ **Weighted prioritisation criteria**

Investment prioritisation criteria should be developed and weighted to reflect their relative importance to an organisation. Criteria can typically include, but are not limited to: strategic alignment, public value/return on investment, investment risk, capacity to deliver.

³ The ILM was developed in conjunction with the Victorian Government Office of the Chief Information Officer in 2005 and the Investment Concept Brief was subsequently introduced into the Victorian Government's Investment Management Standard.

+ **Management buy-in**

Senior management need to be committed to the application of the prioritisation model and ensure that there are no exceptions in applying a disciplined approach to assessing each investment proposal on its merits.

+ **Dynamic**

Investment prioritisation documents and processes need to be regularly renewed to account for the changing investment environment of an organisation.

This structured approach to prioritisation allows ‘apples to be compared with apples’.



Invest

The decision to invest almost always results in a project plan being developed. Rarely 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).

INVESTMENT MANAGEMENT

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 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 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 example of the construction of the Sydney Opera House.

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.



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. 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.

ABOUT THE AUTHORS

Andrew Balmaks

Andrew is the Chief Executive Officer and co-founder 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 as well as for non-government organisations.



Anthony McGinness

Anthony is Noetic's former Head of Consulting and now works as an Associate. He has over 10 years experience working with government and non-government organisations, understanding their most complex problems and developing and implementing innovative solutions. Anthony has a refined and diverse skill set based on extensive experience in strategic planning, organisational review, investment management, program evaluation and information and communications technology consulting.

Anthony 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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