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President's Message

All Made Up

The phrase “all made up” is usually associated with statements that are not necessarily true as, for example, when someone says, “you’ve just made that up”.

We usually associate the phrase “being made up” as negative – an excuse – something to hide the truth of the matter.

In the interesting times in which we live, we’re bombarded with claims and counter-claims of so-called “fake news” that is “all made up”.

In all of these pessimistic comings and goings, one could be forgiven for thinking that the phrase “all made up” automatically implies negative connotations but this need not be the case at all. There’s a positive side, too.

Consider, for a moment, this advertisement that is currently on the internet: “All Made Up – Your local curtain, blinds and shutter specialists.”

There’s nothing negative about that! For this company, “making things up” is their core business and that’s exactly what their customers want them to do. They want them to make up curtains, make up blinds, and make up shutters.

There’s even a Facebook page called “All Made Up” which is about cosmetics and is aimed at bridal parties. When staying at a hotel, someone will come in to “make up” your room. All very positive.

So, what has all this got to do with Value Management? Quite a lot, actually, but to explain it I need to indulge in a bit of personal history. I am deeply indebted to Professor Stuart Green for introducing me to the philosophical concept of “social constructivism”.

I was writing my PhD thesis at the time and delving into how Value Management could handle the complexities of major projects during their initiation phases.

We were speaking about the “primary purposes” of things – any things – and how we identify them. This led to a discussion about the conventional VA/VE term “basic function” which actually means “primary purpose”.

I always use the term “primary purpose” in preference over “basic function” for reasons that I’ve explained in previous Value Times articles and elsewhere.

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We noted the conventional way of “discovering” a “basic function” of a product or entity, namely to produce, randomly, a set of verb-noun statements that identify the various functions performed by the product and then assemble those function statements into a FAST diagram such that each function-statement is connected to one or more of the others by way of “why-how” arrows.

This is a powerful form of analysis of any product and forces one to ask the question of each function-statement “why do we do this?” and, “how we do this?”

These questions are useful and revealing. This is the heart of conventional VA and VE.

The question is, though, how do we establish the “primary purpose” (or “basic function”) of the product or entity?

In the FAST method described above, it is a process of *discovery*. This is important. By working through the set of verb-noun function-statements shown in the FAST diagram, progressively asking “why”, one will eventually arrive at an “aha moment”; the moment when an individual or group

discovers the “primary purpose” (or “basic function”).

The implicit assumption in this approach (and it is here that Professor Green’s insights were so helpful to me) is that the primary purpose actually exists, *independent of the views of those undertaking the exercise* – hence, the process is one of discovery. We find out what it is by asking a series of “why-how” questions.

That’s one way of looking at things.

Another way to look at the same situation is through the lens of “social constructivism”. Whereas the approach I described above ends up with the *discovery* of a “primary purpose”, a social constructivist approach actually *constructs* one – hence “constructivism”.

When I say, “constructs one”, I mean that a group of people get together, work through the issues, define and agree to a “primary purpose” for the entity.

To construct, for example, the primary purpose of a proposed new hospital, a

group of stakeholders can work together to bring a variety of points of view to the table and then, through facilitated discussion, construct and agree to the primary purpose.

I have personally made this social constructivist approach standard practice for many years. The important distinction in practice between a “discovery” approach and a “constructivist” approach is that we always *begin* by constructing a statement of primary purpose. We do not discover it later – we begin with it.

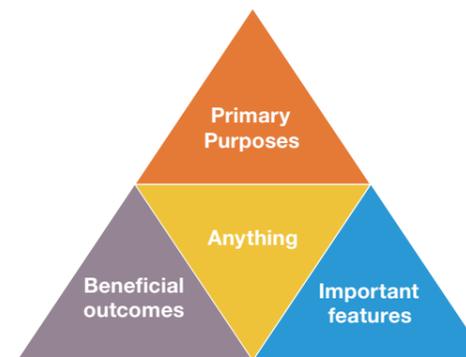
Then, everything else done throughout the Value Management process will be guided by the primary purpose of the entity that we’re working on. This is very important.

As a matter of interest to those following conventional VA/VE practice, the verb-noun approach is still of great importance in framing the primary purpose using a social constructivist approach – it will be at its heart – but it might include other words to provide context.

The primary purpose of the entity that we’re working on takes its place at the

apex of the *Value Triangle*, supported by a list of benefits that will be achieved through fulfilling the primary purpose as well as a list of important features about the entity.

These three factors – primary purpose, benefits and important features – define, collectively, the value of literally anything. This is shown in the following diagram.



Note that money doesn’t come into this yet. First, we define value, then we determine the costs of options, then, and only then, do we consider value for money.

In practice, this Value Triangle translates into a Value Statement.

Here’s an example of part of a Value Statement that my colleague, Mark Neasbey and I facilitated in a Value Management workshop recently. I’ve removed all references to the actual project or location.

This Value Statement may be used not only in the Value Management workshop situation but as an ongoing point of reference in planning, design and procurement. It is a “living” document and will be added to and deleted from over the life of the project.

It is highly unlikely that the primary purposes themselves will change, but from time to time, they, too get added to. In projects involving several workshops over time, we commence each subsequent workshop by re-visiting the Value Statement checking its current veracity and modifying it accordingly.

Our job as facilitators is not only to facilitate the construction of a purpose statement and broader Value Statement, but also to get all stakeholders on the ‘same page’, all focussed on the same purpose, having shared knowledge and understanding of the expected benefits and also of important features from multiple perspectives.

Now let’s return to the title of this article, “All Made Up”. We saw how the phrase can be used negatively and positively, and what I’ve been describing in this Value Statement exercise is the positive version.

You see, the Value Statement was all made up – quite literally.

We brought together about 20 people – all stakeholders in the proposed community centre and library and, through facilitated discussion and challenging, the group of stakeholders constructed the Value Statement comprising the primary purposes, expected benefits and important features.

There was no sense in which this statement was “discovered”; it was “socially constructed” by the group, right at the start of the exercise.

There is enormous value in carrying out exercises such as this. I cannot over-emphasise the importance of building shared knowledge and understanding

Primary purpose, benefits and important features – define, collectively, the value of literally anything



The 2018 Value Summit will be held June 9-12 in Austin, Texas. There are “No Limits to Value” in Austin and we are expecting over 200 attendees from all over the world!

The SAVE International Value Summit is a yearly event providing essential continuing education to individuals that practice Value Engineering. The event is open to all individuals interested in learning more about the Value Methodology (VM), including those that perform or lead value studies or would like to implement a company value program.

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amongst stakeholders, as well as the project team, as early as possible in the life of a project.

Everyone involved in a project brings to the table their own assumptions, as well as their own perceptions of purpose, benefits and important features.

By having facilitated discussion where these assumptions, perceptions and expectations are all made explicit, challenged and modified, shared knowledge and understanding is built-up thus enabling a Value Statement to be constructed.

Proposed new Community Centre/Library Value Statement

Primary purposes

The primary Purposes of the Community Centre/Library are to:

- Connect people from the local community with each other and with the world of information
- Enable the community to access affordable services
- Accommodate community activities

Beneficial outcomes Community Centre / Library:

By fulfilling these primary purposes, we will be able to:

- Promote growth, health and well-being
- Create a sense of community
- Enable activities otherwise unaffordable for the community to undertake
- Contribute to a sense of place and connection to place and community identity
- Establish a civic presence

Important Features of the Community Centre / Library

(the following points are samples from a much longer list)

- Having community places where people can come without having to spend money
- Enabling the community to connect with Council and government
- Contributing to place-making – in its design – contributing to the street, something that is appealing and with character – relating to the place.
- Being welcoming – inclusive, not intimidating
- Being relevant in scale
- Being modest rather than 'civic and iconic'
- Creating aesthetically attractive facilities
- Having a scale that is appropriate to its purpose
- Having an accessible location – visible, public transport, walkable, parking accessible, cycle provision – and being easy to find

I have found that keeping this notion of "all made up" (in the positive sense of the phrase) in mind brings many, sometimes unexpected benefits.

You see, so much of what we come across is "made up" – regulations, rules, specifications, contract conditions, parking restrictions – the list is endless. They're all made up!

That doesn't mean that we can ignore them. On the contrary – it leads me always to this thought: "these conditions (or whatever) have been "made up" by someone, and maybe, just maybe, they can be "made down" (disassembled, demolished, separated, broken up, re-assembled or changed).

We have experienced numerous workshop situations where previously stated 'givens', 'assumptions' and 'constraints' (including specifications, standards and regulations) have been challenged and changed – they were all made up.

When we approach things this way, we are likely to identify opportunities to do things differently which might, and, in my experience quite often does, lead to better 'value for money' solutions. But please remember, this article is all made up!

**Dr Roy Barton, FIVMA
President, Institute of Value
Management Australia (IVMA)**

Health and medical research: the 'value for money' conundrum



Value for money remains one of the least understood and consistently applied concepts in government and business today.

Governments almost universally cite 'value for money' as the principal driver in procurement decision-making.

It is relatively easy to identify and quantify the for money components, whether looking exclusively at capital costs, operating costs, or some time-phased combination of the two (the latter representing whole-of-life costs).

What is not so easy is identifying (in the first instance) and then defining the value side of the equation.

Simplistically, a tender called against a specification might be assumed to represent the value side and therefore tendered costs are the only variable to be assessed as part of the procurement process.

But what if the tenderers are not equally experienced, or insufficiently resourced to meet the stated timeframe, or the specification is open to interpretation and therefore differing levels of responses?

Any of these circumstances alters the value proposition, and a decision about one tenderer over another based solely on cost might well result in disappointment all round.

Quantifying benefits – whether quantitatively or qualitatively – is a necessary discipline in any 'value for money' situation. Governments invest heavily in both the infrastructure related to health and medical research, and also the actual costs of the research conducted therein.

Research investment, like that for hospitals and other social infrastructure, is usually measured economically rather than financially, meaning that costs and benefits attributable to the whole community are measured rather than dollars into and out of the entity involved.

Economics provide robust and acknowledged mechanisms to quantify a social return on investment for health and medical research in Australia, measuring value areas including longevity and quality of life, health system sustainability, medical innovation and industry and workforce productivity.

A common mechanism used is a comparison of costs against economic benefits; the latter including such things as reduced morbidity and mortality health burden, avoided healthcare-related costs, increased productivity, enhanced family and community participation, reduced carer costs, returns from the commercialisation of medical research, and health system sustainability.

The National Health and Medical Research Council identifies a generalised \$5 benefit for every \$1 invested in health and medical research, rising to \$8 to \$1 investment for cardiovascular research.

Where costs, or more particularly benefits, cannot be reliably calculated, economic analysis allows for qualitative comparisons using agreed (and weighted if relevant) criteria that help determine between competing choices, much like option or tender evaluation criteria.

Governments publish economic appraisal guidelines, yet the authors remain unconvinced that they are (a) understood, and (b) if understood, are properly and consistently applied.

The challenge for the Value Management community is to progress knowledge and understanding of the 'value for money' concept, and the application of available tools to its determination.

**Colin Davies
Director, Institute of Value
Management Australia**

**Paul Barton,
Economics Consultant
Capital Insight**

Culture & Value Optimisation

I want to provide some additional perspectives to my colleague Dr Roy Barton's past articles that have highlighted 'culture' as an important element to thinking about value and 'value for money'.

There has been an apparent significant shift in the policy and practices of a number of government agencies and large construction/engineering entities over the past decade.

We as Value Management practitioners are increasingly no longer being engaged directly by the client agency or client organisation. Value Management and Value Engineering are being included in the briefs to the design, engineering and construction entities as part of their expected good practices: and which they do really well at.

But that is based on a brief having been issued to engage their services. So how did the brief come about and how does the client organisation or agency know that the briefed solution is the best 'value for money' approach?

Only initiating thinking about value and 'value for money' once a contract has been let, implies that conceptual thinking has already resolved the agency or the client organisation to adopting and implementing a particular 'constructed' solution and so the only opportunities for any improvement in value or 'value for money' will come from refinements to that 'briefed' constructed solution.

If the client organisation or the government agency buying the constructed facilities does not embed a *culture* of value optimisation *before* such decisions are made about particular asset or construction solutions, then we know that value is not optimised.

This is really important. It is not just about the *processes of planning*, rather it's about how 'value' is perceived and understood by those involved in the processes of planning – whether with a responsibility to drive the processes or to participate in making the decisions: how the people involved define 'value' and how 'value for money' is sought and demonstrated.

I want to emphasise at this point that individual asset projects cannot be judged as to their 'value for money' in isolation. Judgements about 'value for money' are always a comparison – one option against others.

There is always competition for resources within these organisations and agencies. Indeed, in government, it is always about competing priorities for limited (and especially discretionary) funding – and that relates to both capital and operating funds – and it applies to the short and the longer-term.

And that is exactly the same in private enterprises that are always about finding the investment choices that will deliver best value outcomes for its shareholders – both short and long-term. This always and inherently involves comparing one opportunity to others to select the one that is optimal. They don't have a business plan with a single asset solution in mind!

Two industry examples might help you appreciate my point about culture – leading to investment choices:

Healthcare

Health services are a system – not a random bunch of localised services. They rely as much on local GPs and small medical practices as they do on the larger public and private hospitals, which is where the bulk of staff do their training.

Building and expanding 'flagship' hospitals has been practiced for hundreds of years.

Many decades ago when they had their own individual Boards, a very parochial view could be evidenced in how investment planning and decision-making occurred.

The advent of health insurance and then Medicare profoundly changed that to a more systemic view. But even after 40 years of Medicare, political pressures to build new facilities or make extensions to existing facilities abound.

Yet all these decisions are made centrally, based on a systemic or network view of demand, service delivery, costs of delivering the services and the asset implications – what facilities are needed now and into the future, how the models of care and technologies and procedures being applied or are changing, or areas where change will necessitate adjustments. That's not just to the physical assets but also to how and who delivers the services.

It's a very difficult decision-making environment but all the thinking at a systemic level precedes by years any decision for a physical asset solution. Up until recently I would argue that a serious attempt to optimise value and 'value for money' was occurring long before design, engineering and construction firms were 'briefed' for a project.

But despite all this – sometimes the process pops-up concepts that garner enough impetus to generate lots of consulting activities that propose a particular asset solution.

Business cases are prepared, cost-benefit assessments are made, concept plans and schemas are created, lobbying takes place to show demand for it and so on.



Yet analysis turns out to show them as being poor value and 'value for money'. It turns out that the services could be delivered by others at lower costs, the envisaged technologies are being overtaken by newer ones with different facility implications, forecast demand is not growing as rapidly as originally forecast, inadequate consideration was given to disposal or re-use of existing assets and so on.

So, in some instances, there were projects that did not proceed beyond the concept planning stage. In a few instances they were stopped only at schematic design stage. In some instances projects were significantly modified as to scope and staging.

The latest 'flagship' developments in some Australian States are signaling significant issues that detract from the value and 'value for money' that appears to have

been relied upon for their original investment decisions.

And poor outcomes for these developments impact the wider health system – reducing service capacity and adding to cost increases.

Value optimisation thinking and behaviours are essential for Australia's health systems – value managing the individual development projects won't deliver the best outcomes.

Mining

I'm focussing here on the larger mining companies that will typically have multiple resources to exploit. They aren't 'one-mine' entities.

They typically have very good processes of planning to help filter their investment choices to those offering best 'value for money' for the companies and their shareholders.

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Culture & Value Optimisation

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They typically take into account the performance and life-cycle requirements of existing operations, as well as looking into new investments.

Yet, similar to the health experience, occasionally some project proposals reach an advanced stage of planning before they are stopped.

Also similar to health – mining needs to be viewed as a system – from customer and market needs through the logistics of securing the resource, mine planning and approvals, recovery, processing and delivery to the customers (also, years of planning and obtaining requisite planning permits).

The timeline exposes the whole investment to changing cycles of demand and market prices. So having a mix of investment

options, that allows ‘value’ to be optimised within and across their markets, turns out to be an essential *modus operandi* for these companies.

The culture of ‘value thinking’ and ‘value optimisation’ *leads* rather than *follows* choices in investment directions.

So even having really good process is no assurance of consistency in ‘value optimisation’ thinking and behaviours.

Value Management Practitioners can help organisations across all industries develop and implement a ‘value optimisation’ culture: a far more effective long-term approach than just being engaged to undertake individual project studies.

Mark Neasbey
Chair, Education Committee, IVMA



Value optimisation thinking and behaviours are essential for Australia’s health systems

