

A technique to rapidly identify best ‘value for money’

Firstly some definitions

Value: the regard that something is held to deserve; the importance, worth, or usefulness of something [Oxford Languages]

Value for money: the utility derived from a given sum of money spent, based not only on the minimum purchase price (economy) but also on the maximum efficiency and effectiveness of the purchase [www.businessdictionary.com]

The above definition of ‘value for money’ (VFM) compares ‘expenditure’ with ‘effectiveness achieved’ and could equally be compared to the importance, worth or usefulness of something (in other words, the attributes of ‘value’).

How to apply ‘value’ and ‘value for money’

Most feasibility studies and business cases identify a series of options to meet an agreed objective or series of objectives, measured and compared against continuation of the *status quo* (no investment) in terms of benefits achieved and the expenditure required to achieve those benefits.

The Victorian Department of Treasury and Finance publishes the Investment Management Standard (IMS) that takes a different approach to investment decision-making.

Instead of pursuing the achievement of an objective, the IMS approach seeks to address an agreed (and specifically defined) problem.

IMS processes typically involve senior stakeholders, who are familiar with the problem, engaged in four, two-hour facilitated workshop sessions. Stakeholders are also typically decision-makers.

The IMS process identifies:

- a few, highly discriminatory, weighted criteria by which to assess potential solutions to a problem
- potential solutions to the problem (options), including one that fully addresses the problem; sometimes called the ‘gold standard’ solution
- an assessment by stakeholders of the degree to which the problem is addressed by each solution to determine a weighted score
- estimated life-cycle costs of potential solutions (expressed in discounted cash flow terms over a relevant life-cycle of up to 20 years).

The evaluation results for each solution (weighted score and life-cycle costs) are assessed against the solution that fully addresses the problem: noting that not all solutions will necessarily fully address the problem.

“The Investment Management Standard takes a different approach to investment decision-making.”

For example; the ‘gold standard’ solution that fully addresses the problem might cost \$20 million in current ‘value’ terms while other solutions might address 67% and 78% of the problem at current values of \$12 million and \$17 million respectively.

The assessment results are utilised to determine which solutions to develop further (provided they address the minimum requirements of the problem), and from which a preferred solution representing best ‘value for money’ will eventually emerge.

In the above example, the ‘gold standard’ solution costs \$20 million. Achieving a 78%

Continued on page 2

A technique to rapidly identify best 'value for money'

Continued from page 1

solution would (proportionately) cost \$15.6 million but in fact is estimated to cost \$17 million, indicating a cost in excess of 'value' achieved. Achieving a 67% solution would cost \$13.4 million at a cost of \$12 million, indicating an estimated cost that enhances 'value'.

The above example suggests that the 100% and 67% solutions should be subject to further development and evaluation, the 'gold standard' as the benchmark solution and the 67% solution

as potentially representing best 'value for money', all other things being equal and the 67% problem resolution is a sufficiently acceptable outcome.

An underlying assumption to any VFM assessment is that capital is a finite resource, and that achieving best 'value' in every problem, process or solution enables maximum utility to be achieved across a portfolio.

The IMS approach addresses problems that require some form of intervention, to

a level that satisfies minimum expectations without necessarily fixing it in its entirety.

The short timeframe to define the problem, identify potential solutions, and evaluate them provides a cost-effective and time-effective process to agree feasible solutions worthy of further development and evaluation.

Colin Davies
MIVMA (retired) and IVMA Director

Paul (Happy) Howard

Paul Howard, known to all and sundry as 'Happy', passed away just three months short of his 80th birthday on the 27th of September 2019.

'Happy' lived life to the fullest. In his younger days he was a keen soccer player, played basketball and cricket and went on to become a very successful Cricket Umpire.

Cricket and soccer were his great passions, although he did barrack for the Richmond Football Club (when they were winning!).

He was part of the Board of the Tasmanian Cricket Association (now Cricket Tasmania) that successfully united Cricket in Tasmania, re-developed Bellerive Oval into Blundstone Arena and delivered Tasmania its first Sheffield Shield in the 2006-07 season.

'Happy' commenced his working career with the Public Works Department Tasmania in the mid 1950s as a drafting officer.

He went on to become the Manager of the Road and Bridge Design Drafting Group of the Department of Transport Tasmania before being seconded to the

newly created Quality Branch to establish, develop and implement the Agency's successful continuous improvement program.

During this time he facilitated numerous workshops on a wide range of improvement opportunities using an extensive array of continuous improvement tools.

'Happy' became involved with Value Management in 1993 and, in 1996 with John Lennon, formed Global Value Management Pty Ltd. He was the inaugural and only Chairman of the Company until it was voluntarily deregistered in 2017.

During that time he co-facilitated hundreds of Value Management Studies in Tasmania with clients including government agencies, local government organisations and private sector organisations.

Projects he worked on include the Perth Bypass (this is a major project for Tasmania that will be completed this year), re-organisation of Brighton Council, the



Sorell Causeway Bridge replacement, Managing Organisational Change in myState Financial Ltd, and Developing Strategic Directions for Freemasonry Tasmania.

'Happy' was a member of the Institute of Value Management Australia, Board Chairman of Global Value Management, a Past Board Member of the Tasmanian Cricket Association, a Past Board Member of Freemasonry Tasmania and Past President of the Community and Public Sector Union of Tasmania.

Most importantly he was a great mate who loved a beer — he is sadly missed.

John Lennon
FIVMA (retired)

Improving ‘value for money’ management by refining industry standards

The Value Times Summer Edition 2020 identified the IVMA initiative to improve the implementation of Value for Money (VFM) in industry by refining international standards.

In 2019 the IVMA submitted a proposal to the Project Management Institute (PMI) recommending the Value Triangle model for understanding the meaning of VFM and the introduction of VFM Realisation Management.

The PMI acknowledged our proposal and asked us to make a submission in the new PMI digital platform scheduled to ‘go live’ in early 2020.

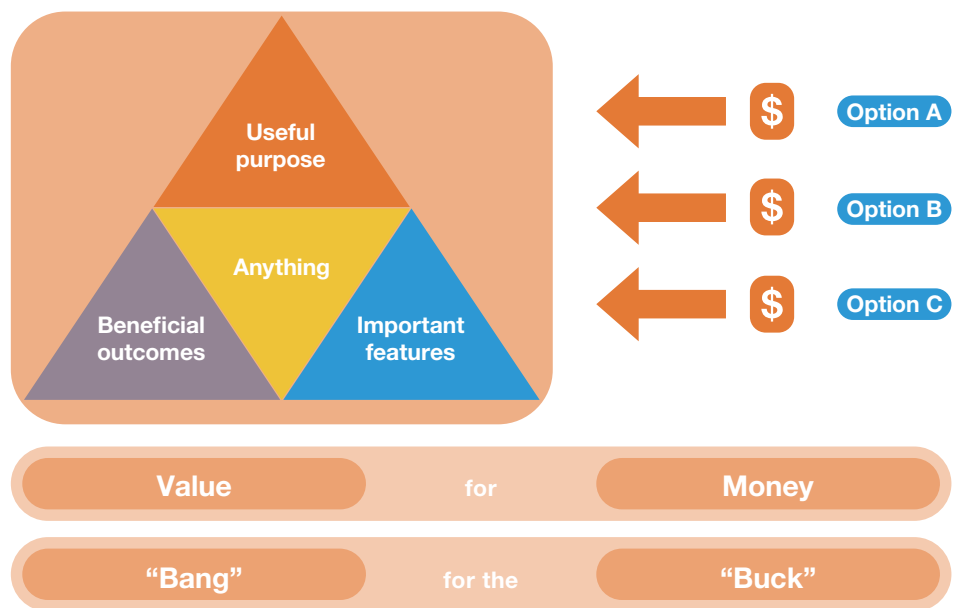
Our first opportunity was to make a submission on the Exposure Draft for The Standard for Project Management – Seventh Edition. Five recommendations were made to PMI in a February 2020 submission by IVMA.

The first recommendation was to add an alternative explanation of ‘value’ at Line 82 namely: ‘value’ may also be considered as part of a ‘value for money’ concept which separates the ‘value and the ‘money’.

Value is described as ‘useful purpose’, ‘beneficial outcomes’ and ‘important features’. Money is described as the sacrifice that needs to be paid to obtain the ‘value’.

The recommendation to include a ‘value for money’ concept in the Standard is justified in the article *The Value for Money Concept in Investment Evaluation: Deconstructing its Meaning for Better Decision Making* published in the Project Management Journal Vol. 50(2) 210-225, 2019 (Barton, Aibinu and Oliveros).

The second recommendation at Line 110 recommended listing alternative ‘value’ definitions — ‘value’ and ‘value for money’ — based on the definitions in AS 4183:2007.



The third recommendation at Line 802 proposed adding recognition of the ‘value for money’ concept to a ‘value diagram’ including recognition that ‘value for money’ is ultimately an indicator of project success.

The fourth recommendation at Line 806 was to include the ‘value for money’ concept. ‘Value for money’ is a measure for comparing alternatives based on the relationship between ‘value’ and ‘total cost’. It is a search for the most advantageous ratio of ‘value’ to ‘money’ and is represented by a conceptual model of ‘value for money’ measurement.

The fifth recommendation at Line 865 was to add the sentence — “To ensure value for money realisation the project team must demonstrate progressively to stakeholders that value for money is being achieved in accordance with the value statement.” This requirement addresses the need for a closed loop for ‘value’ thus ensuring ‘value for money’ realisation.

PMI responded in April 2020 with the development committee’s decision for each of our recommendations which was:

- Recommendation 1: Accepted with modification
- Recommendation 2: Accepted with modification
- Recommendation 3: Rejected
- Recommendation 4: Accepted with modification
- Recommendation 5: Rejected

While not all our recommendations were accepted, the PMI response to our recommendations provides a platform for the IVMA to consider further submissions and recommendations to improve Value for Money implementation in industry when other PMI Standards are presented for review.

Michael Ord
Director, IVMA

Managing 'value' with a paradoxical lens Lessons from a social reality perspective

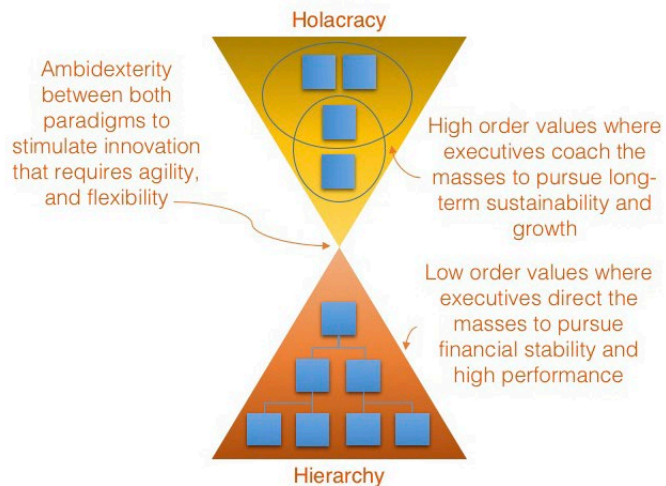
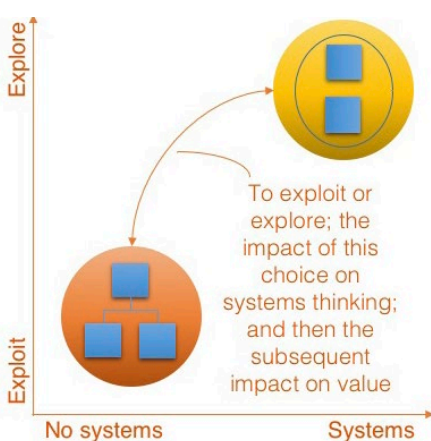
The term 'paradox' stems from the Greek word *paradoxos*; it means 'contrary to expectation'.

Academia also defines several different types of paradoxes. The one of interest here is a social paradox and, specifically, paradoxical situations where organisational entities are involved in tensions and reinforcing cycles.

Common examples of this might be trying to explore and innovate while exploiting resources — thinking globally while acting locally — or fostering creativity while we increase efficiency.

At the very core of this paradox is the inherent tendency to structure organisations to enable 'unity of command' so business opportunities can be **exploited**.

'Unity of command' means that organisations are structured to act as cohesive systems — cohesion is provided by 'ring-fencing' accountabilities into functional entities and then arranging these entities as hierarchical, pyramid-shaped, structures.



Ordinarily, as a business-as-usual state, I have found hierarchical structures to be particularly successful in managing complex human systems.

In contrast, a different structure would be required if the organisation was seeking to **explore** opportunities; such a structure would need to disrupt the cohesion allowing for innovation.

An example of a disruptive structure might be a 'holacracy'. This occurs when an organisation has decentralised management and governance and authority and decision-making are distributed throughout self-organising teams rather than being vested in a management hierarchy.

An alternative would be an ambidextrous organisation where management can balance today's need for efficiency with tomorrow's changing demand; in effect moving seamlessly between an 'exploit' and 'explore' state.

However, my observation would be that it is incredibly difficult for organisations to manage a dual agenda and they typically bias to one or the other

and, in the case of complex human systems, it is typically towards maintaining cohesion (i.e. a hierarchy).

Therefore, the organisational structure we mostly experience, day-to-day, is a hierarchy. Then the key question to discuss here becomes — does the choice to adopt a hierarchical structure impact on value-practitioners and their ability to think about systems and, by implication, does this impact on value?

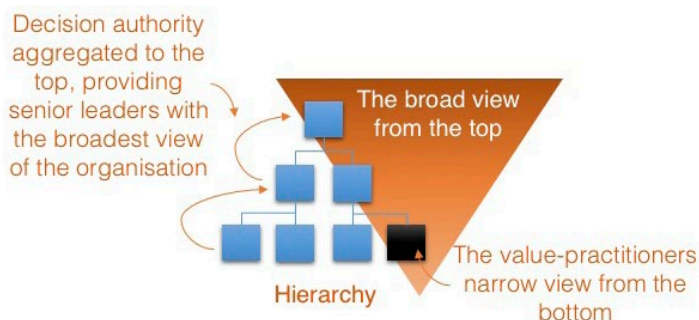
Structured to exploit or explore and the impact on systems-thinking

Organisations typically follow the idea of reducing the work to its lowest component, making something simpler, easily understandable and, in turn, solvable.

This concept is commonly referred to as 'work specialisation', or the division of labour, allowing us to break complex tasks into smaller, more precise tasks.

This hierarchical approach is beneficial and it is associated with the growth of global output and trade.

This approach, generally speaking, increases both production and the individual's



productivity and has led to widespread adaptation as the preferred organisational structure.

These structures dictate the official decision authority that governs the workflow of the company: simplistically, the decision authority aggregates towards the top.

This organisational philosophy is not without its limitations, and these limitations may be significant when you consider how value-practitioners operate within that structure.

Simplistically, these structures adopt a reductionist approach and drive the work to occur towards the bottom of the hierarchy where the view of the organisation, and how it exists in the market, as a system, is at its narrowest.

These structures also result in a gulf between those who perform the work and those who reward the work.

Consequently, as the value-practitioner seeks to engage outside of their immediate entity, to form a more systematic view of the opportunities, they may experience tension with other entities.

Discomfort may result and that provides the motivation to default to the business-as-usual state or to re-align with organisational hierarchy expectations: i.e. only concerning yourself with your own backyard and not interfering with your neighbours.

By implication, the problem with reductionism, at least if naively applied, is that it misses the emergent properties of a system.

“This organisational philosophy is not without its limitations”

It could be contested, but effectively, reductionism is said to imply that a system is nothing but the sum of its parts — but the system has features that none of the parts have and, by implication, may provide more opportunity to find value.

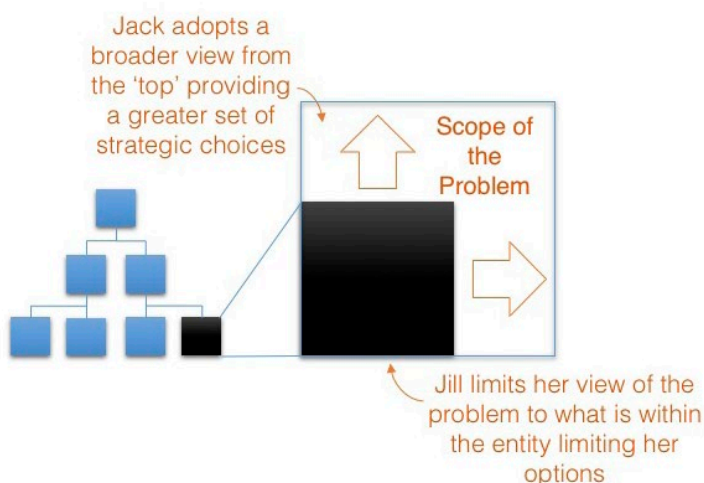
A simple example to illustrate: Jack and Jill received their electrical bills for the month. Both bills are unreasonably high, so Jack and Jill decide to take action.

Jill adopts a reductionist approach to solve the problem and seeks electrical efficiencies within the household (entity) such as changing to energy-efficient light bulbs or reducing the cycle on the pool pump, etc.

Jack adopts a broader view and considers the problem from a systems perspective. He pushes the frame of his problem beyond a single entity and as a result Jack’s options are more strategic and include possibly downsizing to a smaller house to reduce overall household costs or petitioning his local parliamentary representative to challenge increasing electrical tariffs, etc.

Jack’s choices are more significant, and are a step-change compared to Jill’s actions, with the potential to lead to greater value outcomes.

Continued on page 6



Managing 'value' with a paradoxical lens Lessons from a social reality perspective

Continued from page 5

My learning journey in practice

I believe that fundamentally there are two meta-capabilities (MC) required to manage the paradox. MC1 is the ability to assist the organisation in **accepting the paradox** and closing the gulf between the bottom and top of the organisation.

This includes having procedural processes in place allowing the value-practitioner to engage with executive sponsors to collect their 'value' factors and beliefs, and achieve personal alignment with regards to how any particular problem or opportunity will be addressed.

The IVMA advocates using the 'value statement' approach but your organisation might have their own methodologies.

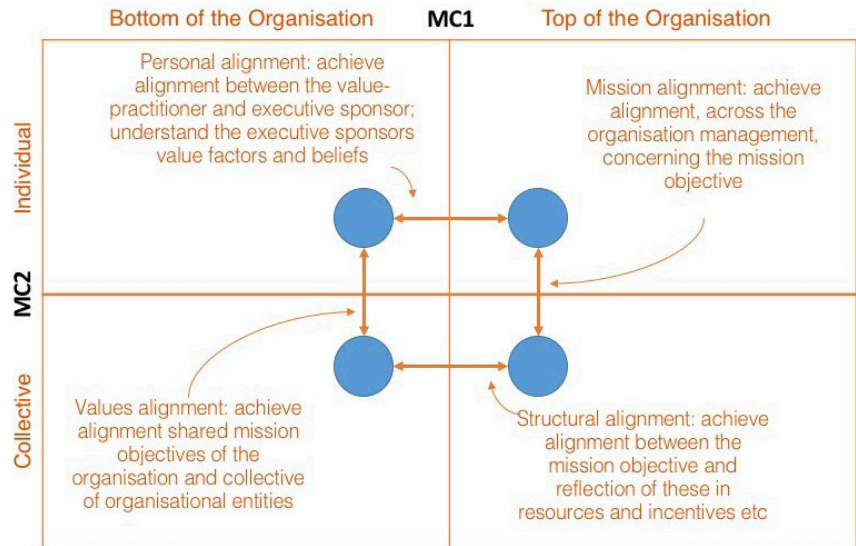
The next step is to achieve structural alignment between the individuals who will perform the work, and their managers who manage the resources.

Simplistically, you are 'wiring' together those who will perform the work with those who will ultimately reward the work and, by gaining executive input, you have their advocacy to navigate any conflict that many arise.

MC2 is the ability to **resolve the paradox**, particularly between individuals and the collective, and how the collective 'rally' around a shared mission objective. I usually consider this through a lens of three key principles:

First — within an entity's areas of responsibilities there should be an expectation that individuals optimise their work in service of the shared mission objective: there should be little need for any direct intervention.

Second — trade-offs between entities will be required, in service of the greater good, and this might lead to conflict. Individual



Adapted from: Fundamentals of Cultural Transformation Implementing Whole System Change

“There will likely be cases where an entity needs to give up some ‘home-turf’ for the greater good of the organisation.”

identities should moderate against selfish outlooks if they prove to be the focal point of any trade-off decisions between options. There will likely be cases where an entity needs to give up some 'home-turf' for the greater good of the organisation.

Third — to enable the previous two principles, and to guide the work, the value-practitioner should provide signposts at the start and end of the effort to guide the collective effort. For example, this might be kicking-off an initiative with a workshop including all stakeholders.

So, what should we conclude?

Firstly, we should recognise that as human beings we exist in complex social systems

and, due to how we structure these systems for efficiency, we might be negatively moderating how we address system-level problems or opportunities.

Secondly, we have identified two meta-capabilities that, if instituted, will assist organisations in not only accepting the paradox but also resolving the paradox, leading to greater value-for-money outcomes.

George A. Scott
MSc, MBA, BCom, BTech, ND (Civil Engineering) (TFIEAust CEngT EngExec IntET) (CPPD)

Achieving best ‘value for money’ from projects

This is a summary of a webinar jointly presented by the University of Melbourne and the Institute of Value Management Australia on 2 July 2020.

This webinar — the second in a series that started last year — had attendees from Canada, the Middle East, Africa and Australia. It involved four short presentations followed by a Q&A session, with questions provided by participants.

Principles of ‘value management’ and ‘value for money’ — Roy Barton

There is an absolute need to separate *value* from *monetary* considerations in any project being contemplated. The term ‘bang for buck’ is common parlance for the same concept: how much you spend compared with what you get for that expenditure.

In a project context, representative stakeholders identify the value underpinning what it is that a project must do and summarise that into an agreed Value Statement. Value Statements represent the headline for a project and are supported by further statements under the headings of *importance*, *benefits* and *purpose* (these three being the component parts of the *Value Triangle* in Australian Standard 4183:2007 for value management).

Monetary considerations include capital cost, total expenditure, revenue, and life-cycle costs, the latter best representing the quantum and timing of capital and recurrent income and expenditure, measured in net present ‘value’ terms.

The elements of ‘value’ and ‘money’ are used to separately evaluate feasible options by which the Value Statement can be achieved.

Case study on Singapore’s public transport system expansion — Mark Neasbey

Mark presented five ‘lessons learned’ over more than 20 years of conducting facilitated Value Management studies. In summary, optimal ‘value for money’ will not be achieved if:

- there is no project objective/value statement
- stakeholder numbers and/or representation is limited
- a too narrow view of ‘study focus’ or ‘project scope’ is adopted
- there is no or limited ‘shared knowledge and understanding’ of the project by stakeholders
- a broad range of options are not considered.

Mark provided a case study of a Singaporean project to expand underground bus and train stabling and maintenance facilities.

The initial stakeholder group was expanded by including Planning, Road and National Park representatives. This expanded representation resulted in significant benefit to the project including:

- broadening the scope of considerations, beyond a bus and train stabling/maintenance facility expansion, to a flexible mass transit system to support Singapore’s social and economic growth
- identifying ‘givens’ and ‘assumptions’ underpinning the project that yielded more and better project options.

IVMA submission to the Project Management Institute — Michael Ord

The IVMA’s recent submission to the Project Management Institute in response to its exposure draft for The Standard for Project Management was outlined.

Continued on page 8



Achieving best ‘value for money’ from projects

Continued from page 7

It comprised five elements that responded to the question: “Why not have a Value for Money Management Plan as part of the revised Project Management Body of Knowledge?”

The following three were accepted with modification (and were the three most important of those proffered by IVMA):

- separate consideration of *value* and *money*
- the concepts of ‘value’ and ‘value for money’ contained in AS4183:2007
- best ‘value for money’ is achieved through the involvement of stakeholders.

Future development of the concepts outlined above involve developing a Value for Money Management Framework that incorporates (amongst other things) life-cycle costing, project delivery considerations, and ‘value for money’ performance measurement and realisation.

Value for money: research meets practice — Ajibade Aibinu

At the moment, ‘value’ is often defined exclusively in terms of ‘cost’, and often ignores broader considerations such as social, economic and environmental impacts (both positive and negative).

The importance of a Value Statement was reiterated as a necessary step in project development, reflecting the aggregated views of stakeholders.

Further research is being undertaken around:

- how projects are measured and evaluated
- how to incorporate other success factors (such as intangibles) into evaluations
- a Value for Money Assessment Methodology that incorporates people, data and technology.

“Why not have a Value for Money Management Plan as part of the revised Project Management Body of Knowledge?”

Q&A session

Does value change (within the context of the Value Triangle) where projects are varied to meet budget? The example project cited was the New Australian Submarine Project.

- have a Value for Money Management Plan
- review proposed changes against the Value Statement to determine whether the project continues to meet agreed criteria, or whether they need to be varied (recognising that not all decisions are taken at the outset of a project).

How do you get input and agreement from stakeholders that have differing views, perspectives, agendas and the like?

- Draw-out issues and considerations from all individuals through expert facilitation
- build ‘shared knowledge and understanding’ and use that to develop an agreed Value Statement.

How do you get input and feedback from quieter/more introverted members of a stakeholder group?

- preparation for a stakeholder workshop provides a starting point for making issues explicit and drawing-out those views

- again, through expert facilitation that draws-out everyone’s views and expectations, where the facilitation is focussed on process rather than project solution.

How important is a Value Statement to project outcomes?

- absolutely necessary as the basis for comparing options.

How is ‘value’ affected if project delays affect, say, revenues?

- ‘value’ is affected, and the Value for Money Management Plan could be revisited or the reality simply accepted as the new status quo.

How are relatively intangible concepts such as ‘equality’, ‘gender equity’ and ‘diversity’ incorporated into ‘value for money’ considerations?

- the Value Triangle in AS4183:2007 does not discriminate in these (or any) areas
- all such considerations should be made explicit, as applicable, in the Value Statement or the supporting importance, benefits and purpose statements.

Colin Davies
MIVMA (retired) and IVMA Director