

President's Message

The Importance of Organisational Culture

Hello Everyone,

Welcome to the Summer 2021 Newsletter.

In the Spring 2020 edition of *Value Times*, I ended my President's article with these words — "The pursuit of best value-for-money starts here!"

I was referring to having an 'organisational culture' that is conducive to achieving best value-for-money, and I'm going to continue that theme in this edition.

The Value Management (VM) literature is virtually silent on the subject of culture, and yet I've realised through many years of reflective practice that it's truly fundamental to achieving best value-for-money.

Processes and techniques certainly help, and I continue to teach and practise them, but Peter Drucker's assertion that "culture eats strategy for breakfast" trumps both.

Just following processes and techniques will improve things — there's no doubt about that — but if we can help organisations to grow and nurture a culture of seeking best value-for-money, then we go to a whole new plane.

The Australian Standard on Value Management (AS 4183:2007) sets the scene for doing this by intentionally describing the collaborative nature of VM.

I've seen some organisations where collaboration amongst people is palpable, and I've seen others where there is so much discontent and mistrust that collaboration would not appear on any radar scan of the organisation. In the latter case, the probability of achieving best value-for-money is exceedingly low.

I recall a meeting a few years ago with a potential new client — a Project Manager — who had asked me to conduct a VM study on his project.

At our first meeting, when I was asking about the purpose of the study and gathering background information, the Project Manager revealed that the reason he was calling for the study was that there was so much infighting within the project team: the exact opposite of a collaborative environment.

I told him that I'd be glad to run a workshop to help resolve the current issues but that a VM workshop was not the vehicle to do that.

I also recall a case where we were asked to do some VM work with a group of stakeholders from several government departments. There were significant relationship issues within the group resulting in a situation in which the players would not even speak to each other. There was no collaboration and certainly no hope for a best value-for-money outcome.

"The pursuit of best value-for-money starts here!"

We were able to run a couple of engagement workshops and resolve the significant issues between them. We then went on to do VM work resulting in very successful outcomes.

This matter of collaboration is crucial and is one characteristic of 'organisational culture' that people need to develop and nurture.

Having all of this in mind, I recently came across another article* about the criticality of 'organisational cultures'. It was co-authored by a group of university professors and is published in the *Harvard Business Review* and also *The Australian newspaper* (1).

The article starts by referring to the corporate disaster at Enron a few years ago and asks, "What went wrong?" They said that their search for answers lead consistently to Enron's top executives, but especially to an "arrogant and dysfunctional corporate culture".

Note these words "arrogant" and "dysfunctional".

Continued on page 2

President's Message

Continued from page 1

The presence of each of these will tend to work against achieving best value-for-money, not only at Enron but also in any organisation. The shareholders at Enron, many of whom lost their life savings, certainly did not get any value for the money that they had invested.

The researchers asked, "How does such a culture become dominant in an organisation" and noted, amongst other things, that "teams and organisations possess distinct cultures and exhibit specific values and norms".

This research provides further confirmation that this whole matter of culture applies to individual teams as well as organisations as a whole. This is so important to all of us who take a keen interest in VM.

The majority of the work that I've done in VM over the years has been done with project teams. Certainly, we have had the privilege of working with many top executives, some of whom have participated in studies, but most of the actual studies have been undertaken with project teams.

Each team develops its own culture. The referenced research again affirms that.

When it comes to achieving best value-for-money, teams can develop cultures that support or work against this. We have seen how, at Enron, the culture of arrogance and dysfunction resulted in disaster. For the most part, the culture of the project teams with which we work will not result in a disaster of the Enron scale, but will almost certainly lead to a loss of potential to achieve best value-for-money.

"When it comes to achieving best value-for-money, teams can develop cultures that support or work against this."

This is where VM consultants can be of great help in drawing alongside leaders to offer guidance in building good habits and practices that are conducive to achieving best value-for-money.

First and foremost, project teams need to develop a clear sense of collaboration. This is virtually always achievable as long as there is effective leadership (by example) and a system that rewards collaborative behaviour whilst discouraging selfish behaviour.

In such an environment, everyone is focussed on achieving the best result for the 'system' as a whole — not just the part that they happen to be working on.

We can then introduce into this culture further good practices and habits that are designed to help achieve best value-for-money.

This includes starting each new endeavour by bringing together key stakeholders and producing a Value Statement that is based on the Value Triangle that I have referred to in many of these articles.

It also includes setting aside time to create and evaluate ideas.

With such a culture operating, day-to-day activities can be supplemented with specific Value Management events that can be independently facilitated. Typically, these activities will comprise short workshops, some only going for an hour or two.

We're certainly in changing times and we can expect more and more changes to the way organisations — and teams within those organisations — seek best value-for-money from their projects and operations.

Whatever directions those changes follow, one thing is for sure - "culture eats strategy for breakfast"!

1. *Dysfunctional corporate culture can drive poor outcomes, November 2020 Cheng J.T., Tenney E.R., Eccles D., Don A. Moore D.A., Logg J.M.

Dr Roy Barton
President, IVMA

Value for Money (VfM) in Government Procurement

Achieving value-for-money is a core objective of government procurement.

The Commonwealth Procurement Rules (CPRs) identify that price is not the sole factor when assessing value for money and stipulates that when undertaking procurement, “an official must consider the relevant financial and non-financial costs and benefits of each submission” including, but not limited to:

- the quality of the goods and services
- fitness for purpose of the proposal
- the potential supplier’s relevant experience and performance history
- flexibility of the proposal (including innovation and adaptability over the lifecycle of the procurement)
- environmental sustainability of the proposed goods and services (such as energy efficiency, environmental impact and use of recycled products), and
- whole-of-life costs.

While VfM is at the core of government procurement, it is execution of the procurement process that can be a significant determinant in whether or not VfM can be said to have been truly achieved.

VfM is a simple concept in everyday life and is easily understood as not paying more for a good or service than its availability, quality and suitability justifies.

However, for major public procurement, the concept is far more complex and will vary according to the perspective of the many interested or affected stakeholders.

Government spending is now seen as a key means to leverage outcomes that go beyond the good, service or

infrastructure being acquired. It extends to consideration of a government’s overall or collective spend.

This means that the procurement function now requires a sophisticated approach to the realisation of these broader goals that are increasingly forming part of the VfM procurement equation.

The New Zealand Government has, for example, identified the need to focus on four priority outcome areas in their procurement activities. These being:

- transitioning to a net-zero emissions economy and designing waste out of the system (including light vehicles, all-of-Government office supplies and industrial heating)
- construction skills and training (for contracts worth more than \$9 million)
- improving employment standards for cleaning, security and forestry contract workers and health and safety in high-risk areas
- increasing access for small to medium businesses (e.g. in software contracts).

The problem in giving effect to wider government policies through ‘leverage’ purchasing is that the actual VfM criteria is only given focus in the ‘rubber hitting the road’ procurement phase of the tender formation and evaluation process.

That is, the procurement phase has to incorporate a raft of outcomes (e.g. economic, social, environmental) that are invariably bundled together as ‘non price’ criteria. The means by which this occurs is that the adopted VfM criteria is ranked and assigned a weighting to reflect ‘value’. While the process is seen as transparent and robust, it can diminish or marginalise criteria that might be seen by others as significant.

The following example, albeit being somewhat of a simplification, is provided to illustrate:

- a project is to be assessed with a total non-price criteria weighted at 60% and the price given 40%
- the ‘economic outcome’ benefit is one of 5 non-price criteria and it is allocated something of the order 5% in the total of 60%

Continued on page 4

“VfM is a simple concept in everyday life and is easily understood as not paying more for a good or service than its availability, quality and suitability justifies.”

Value for Money (VfM) in Government Procurement

Continued from page 3

- the 5% weighting will have little-to-no impact on the assessment outcome when it is compared to 40% accorded to the price.
- While the approach is seen as 'robust' and defensible, it has the following limitations:
- the relative importance of each criteria is presumed to describe outcomes required in terms of achieving the project objectives
- a stakeholder group on a consensus basis will likely determine the assigned criteria weighting (the implication being that a different group would likely agree a different weighting)
- aspects such as economic stimulus, industry participation, etc are assessed as 'non-price' criteria rather than the economic dollar value being developed and considered as part of the financial evaluation of the offer.

The other significant issue is that VfM is assumed to have been achieved once the tender process is complete and the contract is awarded.

In stark contrast to the foregoing, Value Management looks to consider value from the earliest phases of project inception i.e. when the project need is identified and the objectives are established, or even the strategy to which the project responds.

Rather than VfM then coming into focus at the procurement phase, VfM can only be assured if client organisations are required to develop a VfM Strategy or Plan that will, in turn, drive the procurement plan and downstream contract management activities as reflected below.

More specifically, the process should include:



1. Clearly defining what will represent project VfM at the outset. In this regard, the value-for-money framework that is defined in the Australian Standard for Value Management AS 4183:2007 provides a proven approach
2. As part of any service or project investment assessment and justification, quantifying the potential in economic terms the wider outcomes that can be delivered i.e. beyond the immediate project or product focus
3. As part of service or project development, preparation of a VfM Plan that then drives the procurement process, including the need to monetise the economic outcomes so they can be weighed as part of the tender financial selection criteria, i.e. not buried in non-price tender criteria assessment scoring
4. Making the wider service outcomes a contract requirement e.g. requiring the contractor to implement a wider VfM Plan (e.g. local industry participation) as part of contract implementation
5. Ensuring that there is a robust contract management process in place that includes a process for benefits realisation covering all contract outcomes.

To illustrate, my company regularly participates as part of an audit on NSW Roads and Maritime Services projects

where we examine contractor performance in the areas of Building Code of Australia compliance, industry training outcomes, and Aboriginal participation.

For example, the procurement of the Gosford WorkCover NSW building (\$25 million) included a stakeholder-agreed target of 75% regional business participation.

The target was exceeded as follows:

- | | |
|---|------|
| • consultants employed from within the Region | 43% |
| • dollar value of the project expended in the Region | 84% |
| • sub-contractors employed from within the Region | 76% |
| • supplies obtained from businesses within the Region | 100% |
| • employees on site living within the Region | 80% |

If there is one overall message to be conveyed, it is that the VfM can only be assured if a holistic or 'total system' approach is adopted. That is, we should seek to maximise the whole, rather than the way it currently works with only one element of the system (the tender process) being used to realise the economic outcomes as part of the project VfM goals.

Ted Smithies
Director, IVMA

Paradise Dam Improvements Options Assessment

This article is Part Two of a two-part review of options assessment for Paradise Dam.

In Part One an analysis was provided of the dam’s background, problems, and the long-term options considered for dam improvement works.

In Part Two the options assessment process is reviewed with the application of the Value Management (VM) study method.

Work for Paradise Dam is currently proceeding on two fronts, namely a 5.8m spillway lowering and further study to allow the Queensland Government to consider and decide upon preferred, long-term option(s) to inform completion of an accelerated detailed business case by the end of 2021.

As described in Part One, government reporting identified how the Multi-Criteria Assessment (MCA) process was used to assess the long-term options for dam improvement works for Paradise Dam.

However, the reporting concluded the options essentially had similar total scores and a preferred option could not be determined.

This two-part review of a publicly reported MCA process provides an opportunity to critically analyse the MCA process and to consider how it should be undertaken as part of the VM study process.

Part One recommended that further work should review the MCA process, including undertaking a technical assessment of options, separate from cost, to present a technical ranking of options.

The cost of the options should be considered in a separate financial assessment to determine a financial ranking of options. A ‘value-for-money’ assessment then should be undertaken to determine an overall ranking of options.

Part Two addresses the recommended review of the MCA process and its integration with the VM study process.

Multi-Criteria Assessment Context

VM study practitioners recognise the benefits of the MCA process. However, most

practitioners also recognise that the results of the process are not ‘absolute’ for judgement and decisions on preferred options.

Often the MCA process context involves a desktop analysis by technical resources with limited stakeholder input and stakeholder ownership. Also, ‘cost’ is often included as part of the MCA process, and evaluation criteria and criteria weightings can be arbitrarily determined. Such an MCA context may result in deficient results, that are not helpful to sound judgement and the right decisions on preferred options.

A solution to overcome context deficiencies in the MCA process is to undertake the MCA process as part of a VM study. It is argued this solution ensures effective stakeholder input and ownership, robustly determines the preferred option(s), and achieves MCA outputs expediently.

An important element of a VM study would be study team access to the Hydrology Reporting in order to understand how the dam performance may impact on all aspects of the issues raised in the study. This would include trade-offs between dam capacity, water security and dam safety issues associated with major flood events.

This information would contribute significantly to the VM team’s understanding of the long-term ‘total system viewpoint’ of this critical structure.

Value for Money Multi-Criteria Assessment

Determining a preferred option will mean different things for different stakeholders. However, most stakeholders will agree that the preferred option(s) will be the option(s) that provide best ‘value-for-money (VfM)’

whilst effectively addressing the identified safety issues.

It is asserted the best VfM option(s) should be determined by an integrated VM study and MCA process.

This process is outlined in the following table that presents:

- The VM study elements and 12 VM tools and techniques including the MCA process shown as items V08 and V09 in the first column
- A summary explanation for each tool and technique
- Summary comments and analysis of the Paradise Dam March 2020 reporting for each tool and technique
- Suggestions for future Paradise Dam options assessment integrated with the VM tools and techniques.

Readers might review this table and develop their own understanding of an integrated VfM and MCA process and consider the potential advantages of such an approach. Suggested advantages include a better-quality options assessment process, greater stakeholder involvement and buy-in, realisation of option value improvements, an expedited options assessment outcome, and enhanced certainty for options judgement and decisions.

Obtaining stakeholder participation and buy-in is particularly important in the case of dams that have very significant safety, environmental, community and economic impact for many decades into the future.

Michael Ord
Director, IVMA

Continued on page 6

Paradise Dam Improvements Options

Continued from page 5

VM/other tools and techniques		Value management study workshop elements						
#		Objectives and scope	Build knowledge & understanding	Generate ideas	Evaluate ideas	Develop options and proposals	Make recommendations, take decisions	Prepare action plan
V01	Define objectives and scope, and presentations	SA	A	A	A	A	A	A
V02	Value statement: • purpose • benefits • importance	GNA	SA	A	A	A	A	A
V03	Givens: Valid - Yes/No Assumptions: OK or CH	GNA	SA	A	A	A	A	A
V04	Identification of key issues and concerns (risks)	GNA	SA	A	A	A	A	A
V05	Analysis of functions (essential and supporting)	GNA	SA	A	A	A	A	A
V06	Brainstorming • can we's • nominal group technique	GNA	GNA	SA	A	A	A	A
V07	Judgement of ideas • P1, P2, X etc.	GNA	GNA	GNA	SA	A	A	A
V08	Paired comparison matrix (to determine the weightings of evaluation criteria for a MCDA process)	GNA	A	GNA	GNA	SA	SA	GNA
V09	Options assessment:	GNA	A	GNA	GNA	SA	SA	GNA
	1. Evaluation criteria							
	2. Options Analysis							
	3. Options Evaluation							
	4. Value for Money (VFM) assessment							
V10	Develop options and proposals	GNA	GNA	GNA	GNA	SA	A	A
V11	Make recommendations, and take decisions	GNA	GNA	GNA	GNA	GNA	SA	A
V12	Prepare an action plan	GNA	GNA	GNA	GNA	GNA	GNA	SA

SA - Strongly applicable; A - Applicable; NA - Not applicable; GNA - Generally not applicable

Paradise Dam Options Assessment Analysis		
Summary of tool/technique	Comments/analysis of options assessment reporting March 2020 involving an Options Assessment Workshop	Suggestions for future options assessment adopting value for money processes
Defines the different levels of objectives - system, project and workshop etc. Defines the boundary drawn around the entity being examined. Presentations on relevant scope.	Objective of options assessment defined in the reporting.	Different levels of objectives could be addressed by separate levels of value management study workshops.
Defines the value of an entity under three headings of purpose, benefits and importance (i.e. value statement).	A value statement was not specifically reported. Service needs identified through the framework of a partial investment logic mapping exercise, including a problem statement, associated opportunities and the multiple benefits provided by the options.	A comprehensive value statement development process is required to ensure all stakeholder inputs (i.e. importance) are captured and documented to enable effective options assessment.
Technique to identify aspects of an entity or its situation which are givens or assumptions, and if they are reasonable to accept without challenge.	Givens and assumptions appear not to be considered in the context of AS 4183. However, extensive commentary provided on assumptions for various modelling and estimates undertaken.	A formal identification and review of Givens and Assumptions is needed to ensure stakeholders have a shared understanding of the basis for modelling and options.
Identify the key issues and concerns for aspects of an entity or its situation.	The reporting identifies a range of key issues that warrant detailed consideration in future work.	Stakeholders key issues and concerns need to be captured and addressed by the options assessment process.
Identify, describe and analyse function of the entity using modelling processes such as purpose-means models, function hierarchies, or FAST diagrams.	No formal analysis of functions appears to have been undertaken.	A structured functional analysis is required to understand the features hydrology, dam safety, dam storage, flooding, water needs/security and the interactions between these features.
Techniques to ensure that people's thinking is stimulated to identify ideas, proposals etc.	No formal ideas generation process appears to have been undertaken. However, various alternative options addressed in the reporting.	Stakeholders should be involved with identifying value improvements for current options and new ideas/options.
Technique to judge and progress ideas.	No formal judgement of generated ideas process appears to have been undertaken.	Stakeholders should be involved with judging value improvements for current options and new ideas/options.
Use of a matrix process to objectively and transparently determine weightings of evaluation criteria.	Establishment of weightings for six criteria determined by a workshop group consensus. Two main criteria had highest similar weightings which when scored generally cancelled each other out.	The paired comparison matrix process should be used to determine criteria weightings confirmed in a workshop setting involving stakeholders.
Use of a range of criteria and analysis to objectively and transparently assess the overall worthiness of a set of options (Multi-criteria decision analysis [MCDA]). Options ranked technically and financially followed by a VFM Assessment	No separate technical and financial ranking of options appears to have been undertaken. Technical and cost were included in the single MCA process. No VFM assessment undertaken. As each criterion was measured differently (e.g. ML, \$) a process of normalisation was used for comparability across different criterion measures. Some scoring assessments were qualitative which were converted to quantitative using the Likert scale process.	Levels of abstraction options assessment may be required including: Water supply/security, Dam storage/safety/delivery and an Overall combined VFM options assessment.
		Evaluation Criteria should be expanded for water security and project delivery criteria. The value statement would be a key input for criteria/sub-criteria details.
		Stakeholder input required for options analysis: what's good, not good, what we don't know, risks and any fatal flaws.
		Options scoring to be completed in workshops with stakeholders to determine the technical ranking of options.
		A process of option elimination, discarding the worst performing options & assessing the best performing options by judging the technical ranking and financial ranking of each option (i.e. relationship between value & total cost).
The ideas that have progressed through a previous evaluation activity are further developed into a working proposal.	A sensitivity analysis analysed the impact of both uncertainty in weightings, normalisation & scoring, with no significant effects or changes in the ranking observed.	The options and proposals may be improved by the generated ideas and options analysis findings. This will set-up the option assessment outcomes for recommendations and decisions.
Analytical judgement to make recommendations and/or take decisions.	No preferred option recommendation made. Reporting indicates further work required and makes recommendations for a detailed business case	Analytical judgement, making recommendations and/or taking decisions on the options. The MCDA results guide the outcomes but should not be considered as absolute!!
An action plan to realise the workshop outcomes.	The options assessment workshop was not specifically documented in the reporting.	Suitable action plan to realise the VM study outcomes.

Financial case for Snowy Hydro 2.0 just doesn't hold water

This article was originally published in the Sydney Morning Herald on October 22, 2020

Beware of the Snowy 2.0 hubris. The project simply doesn't stack up. Indeed, it threatens to be a mini NBN, with significant commitment of taxpayers' money to what is being oversold as a visionary, nation-building, game-changing project.

Full and proper feasibility has never been shown, so claimed benefits are easily disputed. More cost-effective alternatives are being forgone. The ultimate outcome will fall well-short of the promises made and the expectations created.

To begin, the true cost has not been admitted but is creeping up. This cost is in two parts – money paid by the government to take full ownership of Snowy Hydro and the cost of the project itself.

The federal government, which only had shares in 13 per cent of Snowy Hydro at the start of this process, paid NSW and Victoria \$6.3 billion to buy them out, based on a "fair market value" for Snowy Hydro of \$7.8 billion.

Allowing for inflation, this was more than double the value estimated as part of a failed privatisation attempt in 2006. The government's total investment was increased to \$9.18 billion with an equity injection/subsidy of a further \$1.38 billion.

Sure, the government will now stand to get the full dividends but these are shrinking, as revealed in the latest annual report published this week (\$218 million

"The ultimate outcome will fall well-short of the promises made and the expectations created."

last financial year?), and indicate a poor investment return, even pre-Snowy 2.0.

In March 2017, the project was estimated to cost \$2 billion. In April last year, a contract for part construction was let at \$5.1 billion, to a syndicate made up of Italy's Salini Impregilo, South Africa's Clough and US company Lane Construction.

The latest cost estimate, declared in the recent Standard and Poor's (S&P) credit assessment, was \$5.7-\$6.2 billion, which excludes many significant costs, especially transmission, bringing the government's total exposure to date to more than \$15 billion.

It is significant that S&P downgraded the credit standing of Snowy Hydro to near 'junk' status in September, even though the capital injection was ostensibly to prop-up the credit rating so a final investment decision could be made.

S&P also noted that: "We could lower our ratings if we were to believe that ... timely and adequate support from the government is not forthcoming."

They also said: "We expect that Snowy will not undertake any other major projects (such as additional gas-fired generation) in a manner that would place pressure on the

balance sheet of the company, or without appropriate support from the shareholders."

This provides important context to Morrison's threat to use Snowy to build gas-fired generation in the Hunter if the private sector fails to commit by April next year to provide an adequate replacement for the Liddell coal-fired power station.

Snowy Hydro has claimed exaggerated net benefits of \$4.4 billion to \$6.8 billion, way short of the likely cost. The business case just doesn't stack up, with costs seriously understated and revenues overstated.

The government has made extraordinary, open-ended commitments to Snowy – and taxpayers are carrying the risk.

The Australian Energy Market Operator's Integrated System Plan has indicated that Snowy 2.0 will not be needed for another 10 years, not today, as Snowy management has claimed. This is evidenced by the historically low use of the pumped storage component of Tumut 3 station. AEMO forecasts less than half the output that Snowy has assumed. Far more efficient and cheaper storage alternatives are available.

The government also claims that Snowy 2.0 will put downward pressure on electricity prices and create jobs. Yet its own



The Snowy 2.0 scheme will leave its mark on the Kosciuszko National Park. Credit: Alex Ellinghausen

modelling shows higher prices from 2032 to 2047, and these price forecasts exclude the significant costs of transmission. Generation may push prices lower, but pumping will push them higher.

At 2000MW, Snowy 2.0 will be the largest demand in the market, and pumping is required for 133 per cent of the time of generation due to losses. Moreover, how much of pumping power will be coal-fired?

As to jobs, the partial EIS suggests just eight to 16 operational jobs after construction.

A pumped hydro project Snowy 2.0 also has its weaknesses - the 27-kilometre gap between the two reservoirs is about double the longest anywhere else in the world, resulting in high water friction losses, and the storage capacity of the lower reservoir is smaller.

The significance of the environmental impact on Kosciuszko National Park

should also not be dismissed.

This includes the project's size, which covers thousands of hectares, including:

- hundreds of hectares of crucial habitats
- the dumping of millions of cubic metres of spoil (some contaminated)
- more than 100 kilometres of access roads and tracks
- clearways measuring 120 to 200 metres wide for the 10 kilometres of two double-circuit 330kV transmission lines
- depressed water tables above the tunnel
- the compounding of bushfire damage, and
- the visible scars on the landscape.

It is certainly the largest, and perhaps the only, significant commercial/industrial project allowed in our national parks.

It should also be recognised that this project is not vital to the transition

to renewables and it creates about 50 million tonnes of greenhouse gases during construction and operation.

Even though government spending is essential to our COVID-19 recovery, taxpayers want assurances of value for their money.

Energy experts have been sceptical about Snowy 2.0 from the outset. It is essential that there be a full and genuinely independent assessment of the project before another dollar is committed or spent.

John Hewson
Columnist and former Liberal opposition leader

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