

The VALUE TIMES



AUTUMN
EDITION 2022

President's Message

Value in a Time of Change

Hello Everyone,

Welcome to the Autumn edition of *Value Times*.

Across the globe, we're facing very uncertain times following the invasion of Ukraine and, of course, the ongoing Covid pandemic.

Despite these distractions, which rightfully dominate our thoughts, we have still produced a new edition of our newsletter that we hope will attract your interest.

One of the articles in this edition is by Jonathan Dutton who, for some time, served as the IVMA's CEO. Jonathan guided the Institute through a re-launch in which we shifted emphasis from the past and moved ahead with a new image, a sharpened mission and changes to operations.

Jonathan is now CEO of Procurement and Supply Australasia (PASA) which is the leading provider of information and education to procurement and supply professionals throughout Australia and New Zealand.

In this capacity, PASA supports the largest community of engaged procurement stakeholders in the region.

Historically, IVMA practitioners have focussed on construction and manufacturing (mainly construction)

and have a very solid track record of improving 'value for money' in those areas.

From time to time, I'm privileged to sit down with some retired members and recall many situations where quite remarkable 'value for money' improvements have been made.

In the last edition of *Value Times*, for example, the Sydney 2000 Olympic Games facilities were highlighted as examples. But there are many others, both here in Australia and overseas and, over time, we will include some of those examples in *Value Times*, too.

Jonathan Dutton's experiences in procurement (i.e. procurement of any products and services) are highly relevant to the IVMA community and readership.

That's because getting best 'value for money' is important to everyone, no matter whether it's a personal purchase at the supermarket, procurement of submarines for defence or a billion-dollar construction or mining project.

Helping people achieve best 'value for money' is the IVMA's primary purpose. It's what we do. Jonathan's comments in terms of achieving best 'value for money' in procurement are therefore highly relevant.

Regular readers of *Value Times* will be aware that the IVMA Board of Directors has recently worked together to develop

"Helping people achieve best 'value for money' is the IVMA's primary purpose"

a method of achieving best 'value for money' which is completely consistent with the Australian Standard on Value Management (AS 4183-2007) but that accommodates the more recent demand for much shorter workshops.

Most workshops in Australia that follow the Australian Standard have traditionally been conducted in two days. However, the idea of spending two full days in a workshop is truly anathema to many modern management people both in the Private and Public sectors.

Consequently, we have produced a Method of Operation that is completely consistent with the Australian Standard but is based on several 'short interventions', rather than one, long (two-day) workshop.

These are early days with the new approach, but the ones that are in progress are going very well indeed.

Continued on page 2

President's Message

Continued from page 1

One of our Board members, Mark Neasbey, is spearheading this approach with three current projects. It's a step-by-step process and, to some extent, we're learning as we go.

We're seeing that 'short interventions' using online conferencing software brings many advantages that include the engagement of very senior people, as well as broad participation of stakeholders.

Several of these 'short interventions', for example, have included more than 30 people at a time, which, of course, calls for special facilitation skills that are similar to, but definitely different from, the facilitation skills needed to run small groups face-to-face.

I acknowledge that not all facilitators will be comfortable with this approach. The skills-set involved in running an online meeting of 30 or more people is very different from running a face-to-face meeting with fewer people: that's perfectly fine.

As I've said many times, "there are horses for courses" and if a facilitator is uncomfortable with online conferencing, that person can stick with more conventional approaches or, possibly work at developing new skills.

Of course, the single most important matter in achieving best 'value for money' is to come to agreement on a statement of Primary Purpose of the entity being considered.

"I acknowledge that not all facilitators will be comfortable with this approach"

This is crucial and provides the main reference point of all decision-making.

"How does this contribute to the fulfilment of the Primary Purpose?" becomes the key question when analysing other components or alternative ideas.

We can definitely do this in online workshops. Similarly, we can use online workshops to produce whole Value Statements comprising the Primary Purpose of the entity, the expected benefits of fulfilling that Primary Purpose and, the important features of the entity.

All of this can be done through online sessions and, as I mentioned earlier, has the distinct advantage of being able to actively engage very senior people and stakeholders.

We can then use online workshops to create ideas as to how the Value Statement could best be achieved.

Alternatively, as we're doing in one of the Singapore projects, people can get just into groups and generate ideas and then feed them back for collation, sorting and evaluation. This need not be done online.

So, a system is emerging using 'short interventions' in addition to other individual and group activities, this results in all activities getting incorporated back into the main channel of 'value for money' improvement activities.

This brings me back to Jonathan Dutton's article!

In his concluding comments, Jonathan asks, "What does success look like? What do we value here? What is truly relevant to our business case and what isn't? What outcomes are we pointedly looking for? And, increasingly, outcomes (plural) not outcome."

We have a process that is well-suited to help groups of people answer and address these questions. The new and emerging 'short interventions' approach is particularly appropriate.

See you next time.

Dr Roy Barton
President, IVMA

Value for Money in Procurement

Procurement Managers re-balance Price Vs Risk and, as they do, they try to incorporate more and more ‘wants’ into the purchase equation. Jonathan Dutton FCIPS asks what is ‘value’ from a PROCUREMENT point-of-view — can it only ever be in the eye of the beholder?

As Covid hit hard, just over two years ago now, Procurement Managers suddenly became extraordinarily busy. Stakeholders wanted urgent help from procurement — and they got it.

In particular, internal stakeholders wanted critical supply lines secured, fast. They wanted new stuff (Personal Protective Equipment, mainly) delivered immediately to enable businesses to keep operating.

They also wanted regular, non-essential supply lines paused; with no questions and no quibbles.

Internal stakeholders were re-evaluating Procurement’s role, and Procurement was responding quickly to changing needs.

Over the first few months, whilst working from home, practitioners of Procurement everywhere became much more aligned to genuine business needs. They helped re-manage the balance between service-for-users and governance-for-the-business.

They responded to the breakdown of paper-processes, on which procurement has long relied, and they even helped users find short-cuts to get things done quickly.

They forged new, stronger relationships with suppliers (and stakeholders) and learned to negotiate on video and online. And stakeholders loved it all.

Procurement in 2021 and 2022

Today, these successes have led to a new problem. Quoting nine months or more to source new requirements is now, more than



“... practitioners of Procurement everywhere became much more aligned to genuine business needs”

ever, unpalatable — “you did it in three days during the pandemic” says your stakeholder!

What the stakeholder is over-looking, of course, is the balance between service for them and governance of the process. Procurement is ‘managing down’ corporate risk, for sure, but also managing more ‘value’ into the purchase decision.

In recent years, as savings have diminished towards zero over time (there is only so many times you can tender the stationery

supplies), Procurement was urged to get more and more into their purchase equation: savings yes, cost avoidance too, less risk, more compliance and greater sustainability. Quite a lot really.

Yet, interestingly, procurement in 2020 seemed to follow a classic pathway.

Research during the pandemic by the Grosvenor Performance Group highlighted the early new priority of Risk Management on inbound supply chains.

Continued on page 4

Value for Money in Procurement

Continued from page 3

Yet, subsequently, 'cost' once again became the top priority some six months into the pandemic as organisations cut draconianly to manage low demand – and then look to fiscal repair.

However, by Christmas 2020, it seemed, in the third trimester of the research, that Sustainable and Social Procurement had made something of a comeback – from the hiatus that began in March 2020 as the pandemic kicked-off.

The sequence of Risk, Cost and Sustainability cycled through 2020.

Sustainable procurement now

After the launch of the new global standard ISO 20:400 on Sustainable Procurement in May 2017, the working definition of 'Sustainable Procurement' has widened considerably.

No longer just environmental aspects or buying-green but also 'cause-related' buying, policy-driven procurement decisions and Economic Development considerations.

In other words, 'Sustainable Procurement' as a practical term now includes 'social' procurement, 'ethical' procurement, 'environmental' procurement, 'indigenous' procurement and Economic Development.

Increasingly, stakeholders could see that Procurement can act as an instrument of policy – which begs the question: "What is your policy?" Procurement was making real progress on all these 'Sustainable Procurement' questions as the pandemic approached.

Genuine momentum in most aspects of Sustainable Procurement was almost mappable. Obvious examples included the progress of buying from indigenous-owned suppliers and the implementation paths on modern Slavery Act requirements enacted by so many organisations.

CASE STUDY – Relevant

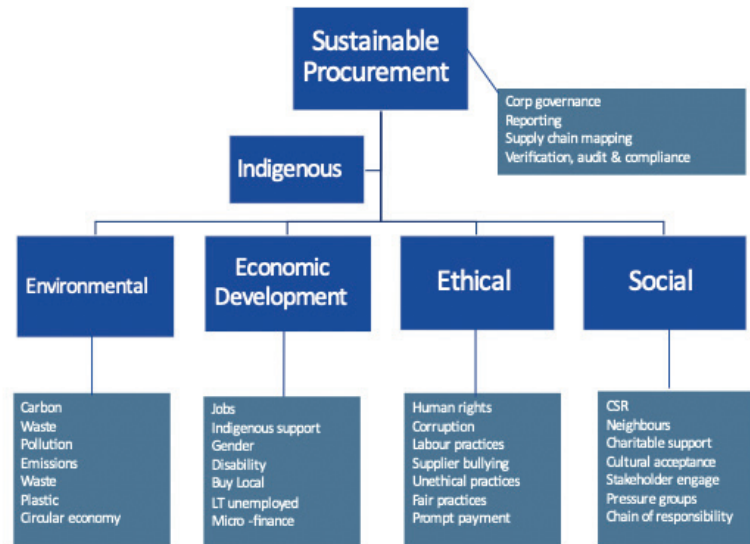
A large Aussie mining company operating in Africa was flying in workers from Perth at great cost. Local employees were capable but often not well enough to work or were illiterate. The miner helped rebuild the local village; dig a fresh water well, open a school, start and fund a clinic. Ten years later FIFO worker numbers had dropped massively as locally-hired workers offered a 70% saving, and their income regenerated the village to sustain progress. The relevance of the miner's generosity also served their business case.

CASE STUDY – Irrelevant

A significant manufacturer was promoting their track record in Procurement as a benefactor of a range of Social Procurement efforts to buy local and support the local community. Yet the company's entreaties were studiously ignored by the protestors at their factory gates. They were protesting about the dead fish in the polluted river behind the factory – and the fact the company was not seemingly doing anything about that, other than proffering contracts to local suppliers to ease local angst.

Sustainable Procurement?

ISO Standard 20:400



Yet, early in the crisis, one Chief Purchasing Officer succinctly described a view on sustainable procurement matters: "who cares about that now, we are trying to save the business." Others agreed.

You see, their definition of 'value' had just changed. They suddenly valued saving the business over solving modern slavery. So, interpretations of 'value' change – context matters.

Sustainable aspects contrived into Purchase Agreements can sometimes not add the 'value' that was intended. Partly because this material relevance is not present.

Definitions of 'value'

So, context matters – as does relevance – or the corporate social responsibility (CSR) industry word for relevance;

materiality. Because with materiality, 'value' rises.

Inescapably, things that matter add 'value'. Things that do not really matter (often 'bells & whistles') do not add 'value' if they are never used. So why pay for them at the outset?

Which product/service elements add 'value', which will not? Which enact the business case, which are optional extras and immaterial?

Fundamentally, 'value' centres around the usefulness of something — not its intrinsic value, which is always relative.

"Crucially, you have to separate 'value' from the money — often just its price tag — and resist mixing them up," says Dr Roy Barton, President of the IVMA.

Or to put it another way; "The value of an item must not be based on its price but rather on the utility it yields." Bernoulli 1738.

Dr Barton says that 'value for money' is always comparative. Option A offers better 'value for money' compared with Option B and Option C. You cannot proclaim that Option A simply offers "great value for money" without comparing Option A with something else.

You can, of course, target getting more 'bang-for-your-buck' by negotiating inclusions or by 'cost avoidance'.

The Australian Standard for Value Management was created in 2007. The Institute of Value Management Australia (IVMA) led by Dr Roy Barton, the President, was instrumental in forging this globally-

recognised Australian Standard AS 4183-2007.

Value Management is defined as 'a structured and analytical process which follows a prescribed work plan to achieve best 'value for money''. Primarily this is part of a purchase decision.

Studying Value Management (and its 'cousins' Value Analysis and Value Engineering) offers many clues in how to quantify 'value'.

"Procurement offers business a valuable thing – value," says Prof Graham Hubbard.

Where 'value' comes from is in the 'eye of the beholder'. It is, of course, 'the beholder' who ultimately judges 'value'. This is so, even when value judgements change as time and context progresses — a force often at the nexus of Supply and Demand. Examples are numerous.

The value of strong ESG in future

Today, Environmental, Social and Governance (ESG) factors matter. Companies, especially, are increasingly judged on ESG standards by consumers, shareholders and Boards alike, and always by taxpayers (and politicians on their behalf) — never mind the regulators.

In other words, ESG is becoming increasingly relevant, because stakeholders demand it.

From Charles Emond, President of Caisse de dépôt et placement du Québec (CDPQ),

"A CEO recently told me that, a year or two ago, ESG was the last question that would come up in (an investor) meeting, if there was time. Now those meetings start with that question."

A poignant CASE STUDY: VIC Govt Hotel Quarantine Security Services 2020

Mixing priorities of 'value' on any purchase decision can directly contribute to bad purchase decisions. Typically, in Public Service Procurement, a regular scale of priorities in purchase decisions moves from 'cost' first, to 'risk' second (sometimes first though), to other tertiary considerations such as 'sustainable procurement' outcomes.

In this high-profile case, purchasing Security services for the hotels accommodating returned travellers in quarantine, you might expect this order to be adjusted — maybe risk primarily, cost secondary, other considerations maybe nowhere, given the urgency and focus of the contract.

Yet as the Victorian Government Enquiry revealed, it seems that the primary consideration of the purchase decision makers appeared to be a non-panel vendor's commitments to employ disadvantaged Australians as Security Guards. With the risk of insecure hotels and even escalating cost factors relegated to only secondary consideration.

ESG factors in business operations are becoming much more prevalent today. Key stakeholders such as consumers, shareholders, taxpayers, customers, staff and even suppliers are more concerned over such ESG matters.

In other words, they now value them more. Their 'beauty' is their own balance of these 'cost', 'risk' and ESG questions. Both in the Public and Private sectors too.

Continued on page 6

"Things that do not really matter (often 'bells & whistles') do not add 'value' if they are never used"

Value for Money in Procurement

Continued from page 5

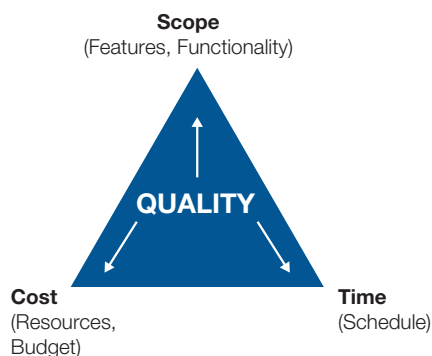
Conclusion

Defining 'value' is a more critical role for Procurement now: establishing the desired 'value balance' in the purchase equation before any commitment is made to purchase.

What does success look like? What do we 'value' here? What is truly relevant to our business case and what isn't? What outcomes are we pointedly looking for? And, increasingly, outcomes (plural) not outcome.

Traditionally in procurement this question of desired-outcome centred around the Project Manager's IRON TRIANGLE of COST, delivery TIME and QUALITY measures on any project:

Today there are more considerations in any significant corporate purchase decision — that is now usually always made by a decision-making unit (DMU) or group of executives and rarely any single individual; even a Procurement Manager.



“Defining ‘value’ is a more critical role for Procurement now: establishing the desired ‘value balance’ in the purchase equation before any commitment is made to purchase”

Especially if Procurement is being used as an instrument of policy, as is often the case in the public sector (buy local, for instance) and as is increasingly the case in the private sector (buy indigenous).

So, these other purchase considerations change with policy and over time. They almost always include 'cost', 'delivery' and 'quality' but also other factors squeezed into the purchase criteria, and often included in weighted scoring criteria on tenders, such as 'sustainable procurement' questions, corporate priorities, public relations profile, other stakeholder outcomes.

Even strategic considerations (for example, buying from China) or tactical priorities (for example, buying from small and medium enterprises so they survive the pandemic crisis) influence purchase decisions today and can deliver great 'value' in certain circumstances.

The definition of VALUE for corporate buyers is broadening markedly. And as these attractions vary in the eye of our beholders – the organisation's stakeholders – so Procurement's role will become ever more complex and measuring success ever more difficult.

Jonathan Dutton, FCIPS, is the CEO of the Procurement and Supply Association (PASA) who run a wide range of procurement events and training programmes each year www.procurementandsupply.com and has a non-executive role at SUPPLY CLUSTERS. Jonathan has also worked extensively in the past as a procurement consultant and is a former INTERIM CEO of the Institute of Value Management (IVMA) www.jdconsultancy.com.au

Beware the perils of ‘cost saving’

Here is a story — based on facts as I understand them — admittedly from a long, long time ago.

Someone was buying passenger ferries for one of the prettiest harbours in the world. That person hated Worker’s Unions and all they stood for.

The new ferries were designed to be 35 metres long with a crew of three or four (it was, after all a long time ago and I’m a bit hazy on some facts).

Looking at the award, the Executive purchasing the ferries determined that, if the ferries were only 25 metres long, they could reduce the number of crewmembers per vessel by one.

Back then (in 20th century money) that might have amounted to an annual saving of, perhaps, \$100,000 on wages and on-costs per ferry. So their potential saving was somewhere in the vicinity of \$600,000 to \$800,000 per annum.

So, the Executive had the ferries respecified to 25 metres in length, but there wasn’t the time or budget to redesign other aspects of the craft.

As a result, when the ferries went into service, they performed like racing cars because the engines were designed to power a much bigger boat.

All that power under the skipper’s control was put to good use, at least for a short time, because, subsequently, the Harbour Master imposed a speed limit on the ferries to reduce the bow wave that was causing bank erosion at the shoreline.

The limited speed at which the ferries could

“... but there wasn’t the time or budget to redesign other aspects of the craft.”

now travel meant the engines were operating at a very inefficient point of their ‘power curve’ and were subject to build-up of the products of combustion on the pistons, valves and diesel injectors.

Oh, and they also spewed out black exhaust smoke.

The consequence of this was that each ferry in the fleet needed to be regularly dry-docked, the engines removed and reconditioned engines fitted and commissioned (more than once per ferry per year).

My guesstimate is that there was a team of at least four fitters involved nearly full-time in reconditioning the engines removed from the boats, to say nothing of the divers (for the docking and undocking), painters, and crane hire, to name a few of the associated costs.

The outcome of this little saga was:

- the Unions successfully fought the crew reduction (no savings on wages)

- the ferries continued to operate at reduced speeds
- engines needed to be frequently reconditioned (throughout their service life)
- the passenger carrying capacity (and hence revenue earning capability) was reduced
- twelve of these vessels were originally ordered but only four entered service.

So, would you say that the saving of 10 metres in the length of each ferry provided any ‘value’ to the organisation and its customers?

Where was the Risk Assessment? Where was the robust Design Process? What were the Capital and Operational Budget impacts? “Where were the review processes? And where was the Oversight and Governance?”

What would you have done?

Colin Davies
IVMA Director and retired VM facilitator

‘Demonstrating Value for Money and Transparency of Process’ – Webinar

In the Summer edition of *Value Times* we announced the first of IVMA’s “Occasional Webinars” on topical matters in which we invite IVMA members and interested parties to participate.

The first webinar ‘**Demonstrating Value for Money and Transparency of Process**’ was held on Wednesday 16 February 2022. Somewhat auspiciously this was the day on which the Australian Democracy Network chose to issue its ‘Confronting State Capture’ report that highlighted the lack of transparency in many current political processes in Australia: <https://australiandemocracy.org.au/statecapture>.

Mark Neasbey, Chair Education Committee, hosted the webinar and six IVMA members participated. The webinar noted some two and a half decades of the application of Value Management on billions of dollars worth of projects and programs in several Australian States and, in particular, in the establishment and operation of the 2000 Olympic Games in Sydney.

The benefits of Transparency of Process and inclusion of all stakeholders were well

“The webinar noted some two and a half decades of the application of Value Management on billions of dollars worth of projects”

demonstrated over this period and the benefits to the community are still being enjoyed.

However, in January 2022 the Transparency International Index (that assesses transparency of political process) noted that Australia dropped from 14th in 2020 to 18th in 2021 (by contrast New Zealand is equal 1st, Singapore 4th, UK 11th, Canada 13th). <https://www.transparency.org/en/cpi/2021/index/aus>

The group agreed that this current lack of transparency and the benefits of Value For Money ‘Labs’ needs to be highlighted and actioned at every opportunity.

John Bushell
Chair Publications & Events
Committee,
IVMA



ACHIEVING BEST VALUE FOR MONEY FROM PROJECTS

Capturing and incorporating community viewpoints in large infrastructure projects

WEBINAR

**Wednesday 27th
April 2022**

@ 10:00am

(Canberra,
Melbourne, Sydney)

YOU ARE INVITED TO JOIN A WEBINAR CO-HOSTED BY
**THE INSTITUTE OF VALUE MANAGEMENT AUSTRALIA AND THE
UNIVERSITY OF MELBOURNE**

—

This is the fourth webinar in “Value for Money” series which will examine how community viewpoints can be effectively captured and incorporated in the planning, design and construction of large infrastructure projects. The presenters will use West Gate Tunnel and Pacific Highway Upgrading projects as case studies and highlighting the process involved and how conflicting views can be managed.

EVENT OUTLINE

The webinar will run for one hour. There will be a short presentation from each of the panellists, followed by 30 minutes of Q&A.

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To register for this webinar, please go to:

<https://unimelb.zoom.us/meeting/register/tZwufuuopj8jGNc66CXRqoRKTcC5uZjEVF9u>

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