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VALUE FOR MONEY



HOW TO SHOW THE VALUE FOR MONEY

for All Types of Projects
and Programs In:

Governments

Nongovernmental Organizations

Nonprofits

and Businesses

*A Systematic Process to Measure Impact,
Monetary Benefits, and ROI*

With the Assistance of Kylie McLeod

ROI INSTITUTE®

Value for Money

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Praise for Value for Money

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“There are very few constants in healthcare. Two of them – the push for greater quality and productivity – are comprehensively addressed by the authors. And in so doing, the direct connection between resource investment – time and money – and the return on those investments is concisely and profoundly made.”

Ross Mitchell
Vice President, External and Government Affairs
Brookwood Baptist Health

“*Value for Money* is a must read, must have for every leader at every level who wants to understand the science of showing value in their organization. The insights, learning, and practical impact of the examples provided throughout the book are timeless and will shape our understanding of ROI for decades to come. If you want to know about the monetary impact of your program, follow the principles outlined in *Value for Money*.”

Dr. Brad Shuck
Associate Professor
University of Louisville

“This book is a roadmap for all types of businesses, no matter whether profit or nonprofit, to find their way to true success. I personally have experienced the incredible impact ROI Institute makes of optimizing expendable resources to have the needed outcomes with greater impact. It is a must-read for anyone who wants to be successful and dynamic in their work and life.”

CH (BG) Charles R. Bailey, Ret.
Deputy General Secretary
General Board of Higher Education and Ministry
The United Methodist Church

“The publication of this book comes at a critical moment. Being in a position to clearly show value for money in non-for-profit, governmental and multi-lateral institutions has become critical for the survival of high impact programs for the well-being of the most vulnerable amongst us.

For as long as I have known Gina, she has been concerned about performance – not only the performance of individuals, but also of groups and Organisations. Her professional endeavours and dedication to making this world a better place for everyone, together with her first-hand knowledge of what it means to demonstrate value for money for donors, makes her an exceptionally powerful contributor to this arena.”

Michèle Pagé

Head of Human Resources

Organisation for Economic Cooperation and Development (OECD)

“*Value for Money* provides easy to grasp tools and concepts for anyone involved with program or project budgets. As a 30-year professional involved with programs and project budgets ranging from several thousand to several hundred million dollars, I can attest to the growing need to show value from a variety of data points. This book fulfills this growing need perfectly and should be on every program or project manager’s desk!”

Col. Garry L. Thompson

United States Army

“We live in a world where almost every sector in society is increasingly being asked to be more accountable, and to be able to demonstrate a return on investment. The NGO, Public and Multi-lateral sectors are not immune from this accountability landscape, where constituents, beneficiaries, donors and a range of other stakeholders are demanding demonstrable efficiencies and results. Building on a wealth of previous work in the area, *Value for Money* is the definitive guide for organizations and individuals grappling with this issue, from the Enhanced Logic Model to articulating shared responsibilities, to providing practical tools and templates – this book sets the standard, and will define how we think about demonstrating value for the next generation.”

Michael Emery

Director of Human Resources

United Population Fund

“Kudos to the authors for providing a logical, systematic project evaluation framework that incorporates both financial and key nonfinancial elements affecting an investment decision.”

Hank Walker

Partner, Andrade/Walker Consulting

Former CEO of a large Catholic health system

“There is no more important measure than business impact, yet many business professionals I encounter struggle with how to align their projects to business objectives. Jack and Patti Phillips not only use their years of experience in measuring impact, but also their vast network of contacts to arrive at 12 easy steps anyone can follow. If you want to produce real results, this book is a must read.”

Kevin Oakes

CEO

Institute for Corporate Productivity (i4cp)

“Having worked in the public sector for over 15 years for the United Nations and partnered with Jack and Patti Phillips of ROI Institute, USA, to develop two key measurement courses for the UN System on the ROI Methodology, it is evident, as highlighted in *Value for Money*, that there continues to be a global demand to show “value” and “results”, particularly in programs aimed at growing human capital. As noted in the book, the global financial crises, donor fatigue, and reduced resources reinforces the need to view financial contributions as an investment that must be accounted for with tangible results showing clear outcomes. “Value for Money” is a useful and practical guide that helps us to reassess the impact of our work in bringing about tangible results for organizational change.”

Mariama Daramy-Lewis

Chief, Human Resources and Training Section

United Nations Environment Programme*

*The views expressed herein are those of the author and do not necessarily reflect the views of the United Nations or the UN Environment Programme.

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Introducing the ROI Methodology

A group of hospitals in the Birmingham, Alabama, metro area were seeking an innovative approach to reduce bloodstream infections in the intensive care unit. Participating hospitals comprised a mix of religious-affiliated, government-owned (city, county, and state), university-affiliated, and private-sector organizations. These hospitals were concerned about the excessive number of central line blood infections that were occurring as a result of a central vascular catheter, inserted into a large vein in the chest, introducing infection.

As the group developed and implemented a new set of procedures for reducing the number of infections, they realized that the procedures represented a cultural shift in the way they operated. This comprehensive, unit-based safety program required participants to use checklists, gain knowledge, double-check, and speak up. For the new procedures to be successful, various levels of data were needed beyond the traditional monitoring of infections, length of stay, and costs associated with these infections. Successive sets of data were needed that would examine the team's reaction to the new procedures, the extent of learning of new processes and

procedures, and correct application of new procedures and tools, all of which are aimed at the impact: infections, mortality rates, length of stay, and operating costs. This group envisioned sets of data that represented a chain of impact that must be present for the project to be effective. These sets represent four levels of outcome data (reaction, learning, application, and impact). A fifth level, financial ROI, is possible and is sometimes necessary to calculate in today's environment. Collecting data along these levels and using a method to isolate the effects of this program from other factors provides comprehensive data to show the impact of this program. Figure 4.1 shows the types of data from this study [1].

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The richness of the ROI Methodology is inherent in the types of data monitored during the implementation of a particular program. These data are categorized by levels. The process for showing monetary value, including ROI, is a comprehensive, systematic methodology that includes defining the types of data, conducting an initial analysis, developing objectives, forecasting value (including ROI), using the ROI process model, and implementing and sustaining the process. The following sections briefly describe the approach necessary to achieve the level of accountability demanded in today's business climate.

Types of Data

An attempt to summarize what's needed in the innovation area brings into focus some very key issues that have been presented in the previous two chapters, as well as in this chapter. This must be considered from perspectives of principal funders of programs, as well as the need for the various stakeholders who are involved. Add to this the need to have a systematic, logical flow of data for an evaluation and you have the data set in Figure 4.2 with input into the process and the six categories of data arranged in a logical chain of value, moving from input through five levels of outcomes, including the financial ROI.

Input

In any program, there is input. This is usually the people who are involved, both in terms of number and the time they're involved in the activity, and the cost of the process. This is important because having the right

Project: The Comprehensive Unit Based Safety Program	
<p>Description: Infections in the bloodstream can be dangerous and hard to treat. According to the Centers for Disease Control and Prevention, almost 250,000 occur in U.S. hospitals each year, often in patients who have a central vascular catheter, a tube inserted into a large vein in the chest, which may be used to provide medication or fluids or check blood oxygen levels and other vital signs. The catheters are very important in treatment but inserting them correctly and keeping the entry site and dressings clean can be complicated.</p> <p>The Comprehensive Unit Based Safety Program is focused on reducing central blood line infections in intensive care units. The hospital instituted a checklist system that sets up specific steps for doctors, nurses, and technicians to take when inserting and managing a central line. The checklists give nurses explicit permission to challenge their superiors—including doctors—if they don't follow the steps without fear of reprisal. They also require workers to assess each day whether a central line catheter needs to remain in place or can be removed, which reduces the patient's risk of infection.</p>	
Levels	Objectives
Level 0—Input	<ul style="list-style-type: none"> All doctors, nurses, and technicians (participants) in the intensive care units are involved.
Level 1—Reaction	<p>All participants must see this program as:</p> <ul style="list-style-type: none"> Necessary Important Feasible Practical
Level 2—Learning	<ul style="list-style-type: none"> All participants must demonstrate knowledge of the checklist and new procedures. Participants must practice “speak up” conversations with colleagues and visitors.
Level 3—Application	<ul style="list-style-type: none"> Checklist will be monitored. The use of new procedures will be observed. Extent of “speak up” conversations will be collected.
Level 4—Impact	<ul style="list-style-type: none"> Central line bloodstream infections will be reduced by 50 percent in six months. Mortality rates reduced by five percent. Days in hospital reduced by two percent. ICU costs reduced by three percent.
Level 5—ROI	<ul style="list-style-type: none"> ROI objective is 25 percent.

Source: Data from Alabama Hospital Association/ROI Institute, Inc.

Figure 4.1 Example of Levels of Evaluation.

people involved is critical. Ideally, we want people involved who want to be involved in an engaged way. Therefore, the starting point for knowing, showing, and proving the value is having the right people involved at the right time with the right amount of time available and in the right program. Input is important, but doesn't speak to the outcomes, the results.






Level	Measurement Focus	Typical Measures
0-Input 	<ul style="list-style-type: none"> Input into programs, including indicators representing scope, volumes, times, costs, and efficiencies 	<ul style="list-style-type: none"> Types of programs Number of programs Number of people involved Hours of involvement Costs
1-Reaction and Planned Action 	<ul style="list-style-type: none"> Reaction to the programs, including their perceived value and planned action to make them successful 	<ul style="list-style-type: none"> Relevance Importance Usefulness Appropriateness Intent to use Motivational Recommended to others
2-Learning 	<ul style="list-style-type: none"> Knowledge and success gained, learning how to develop concepts and how to use skills and competencies to drive program success 	<ul style="list-style-type: none"> Skills Learning Knowledge Capacity Competencies Confidences Contacts
3-Application and Implementation 	<ul style="list-style-type: none"> Application and use of knowledge, skills, and competencies, including progress made and implementation success 	<ul style="list-style-type: none"> Behaviors Extent of use Task completion Frequency of use Actions completed Success with use Barriers to use Enablers to use Engagement
4-Impact 	<ul style="list-style-type: none"> The impact of the programs and processes expressed as business impact measures 	<ul style="list-style-type: none"> Graduation rates Infant mortality Crime rates Productivity Revenue Quality Jobs created Efficiency Incidents of disease Retention Customer satisfaction
5-ROI	<ul style="list-style-type: none"> Comparison of monetary benefits from the project to project costs 	<ul style="list-style-type: none"> Benefit Cost Ratio (BCR) ROI (%) Payback period

Figure 4.2 Six Categories of Data.

Reaction and Planned Action

Reaction is often omitted from most current models of measurement under the assumption that people involved in a program are involved because they want to be. They see value in the program and they see it as important to their success as well as the success of the owner. But that may be a false assumption. The key is to collect data at this level, to make sure that the participants involved in the program see it as relevant to their situation,

important to their individual success and to the success of others. Reaction data should also be useful, helpful, and appropriate—and should show intent to make the program successful because participants are motivated to do it. Perhaps they would even recommend others be involved as well.

Without this proper reaction, their efforts will be minimal at best. Some of the participants involved in a program may see it as a waste of time or money. Others would see these efforts as additional, unnecessary work. Still others may see the program as misguided and inappropriate. In these cases, the results may not materialize. Consequently, our first set of data is a very important first outcome level.

Learning

The next logical step is learning, and this is closely related to reaction. Reaction will be influenced by what participants in the program are learning about the process that they're involved in, the rules and the conditions under which they are operating, the tips to make the program successful, and how to overcome the barriers. The more they know, the more the resistance reduces and motivation increases.

It's all about learning new ways, new processes, and new situations through exploring, experimenting, and adjusting. Learning is critical, and we must measure it. Learning measurements ensure that the knowledge, skills, and competencies are there, with the confidence to make it work, and the contacts to make it successful. Learning measurement is necessary but is still a long way from the end game.

“I have spent more time learning from the things that didn't work than I have spent learning from the things that do work.”
– Thomas Edison

Application and Implementation

For some stakeholders, the challenge of program success is at this level. Participants are doing something. They're trying new procedures, testing new concepts, completing tasks, exploring options, and identifying possibilities. The participants are mobilized, making progress, and taking action. This is helpful because at this level of outcome, resistance has been reduced to a certain extent and the inertia of getting people to do something has been overcome. It's also critical because programs must follow certain procedures. Application and implementation includes all processes and procedures necessary to make the program successful, such

as tasks, actions, checklists, and policies. This is powerful, and it can only be accomplished when participants learn what to do to make the program successful.

Impact

The level is critical to donors and sponsors. The impact is the consequence of actions, and includes increased productivity, improved quality, or improved times. These impacts are in the system, and they define the organization. In governments, NGOs, and nonprofits, impacts include patient outcomes, jobs secured, students graduated, infant mortality rates, addictions, crime rates, and auto accidents. The impacts will make the difference. Not only do we have the tangible impacts that we've just described, but the intangible ones as well. These usually include customer satisfaction, image, stress, patient satisfaction, teamwork, collaboration, quality of life, and alliances. These impacts are important but maybe not easily converted credibly to money.

Return on Investment

As mentioned earlier, the return on investment is needed in some programs, and this can be measured in three very common ways. One is the benefit-cost ratio, which is the monetary benefits from the program divided by the cost of the program. Benefit-cost analysis has been used for centuries and is meaningful to many executives, particularly those in nonprofits, governments, and NGOs.

Next, there's the ROI, expressed as a percentage, which is the net benefits divided by the cost times 100. The net benefits are the monetary benefits minus the project costs. This is a very common measure in businesses and often is even understood by consumers, as they clearly see their ROI for investing their money in a savings account in a financial institution. The ROI formula is derived from the finance and accounting field. ROI measures keep the CFO and the CEO happy. And it's the ultimate accountability. For most executives, it shows the efficient use of funds. Just getting the impact is one thing but seeing how this could be achieved with less cost is another. The higher your ROI, the more efficient the use of the funds. Finally, the payback period is another possibility, and this is a calculation of how long it takes to get the money back from this investment. This is also a financial measure.

“The ROI is a way to keep score.” – Warren Buffett

So, there you have it. Six categories of data that are necessary, arranged in a logical flow so that one level or one category is a precondition for the others. This is a foundation that will be critical for the material in the book, but there's more.

The Initial Analysis

Our research suggests that the number-one reason for programs failing is lack of alignment with the business. The first opportunity to obtain business alignment is in the initial analysis. Several steps are taken to make sure the program is absolutely necessary. As shown in Figure 4.3, this is the beginning of the complete, sequential model representing the ROI Methodology. The first step in this analysis examines the potential payoff of the program. Is this a problem worth solving or an opportunity worth pursuing? Is the program worthy of implementation? For many situations, the answer is obvious: *Yes*, the program is worthy because of its critical nature, its relevance to the issue at hand, or its effectiveness in tackling a major problem or opportunity affecting the organization or community.

The next step is to ensure that the program is connected to one or more impact (business) measures. Defined are the measures that must improve with the overall success of the program. Sometimes the measure is obvious; other times, it is not.

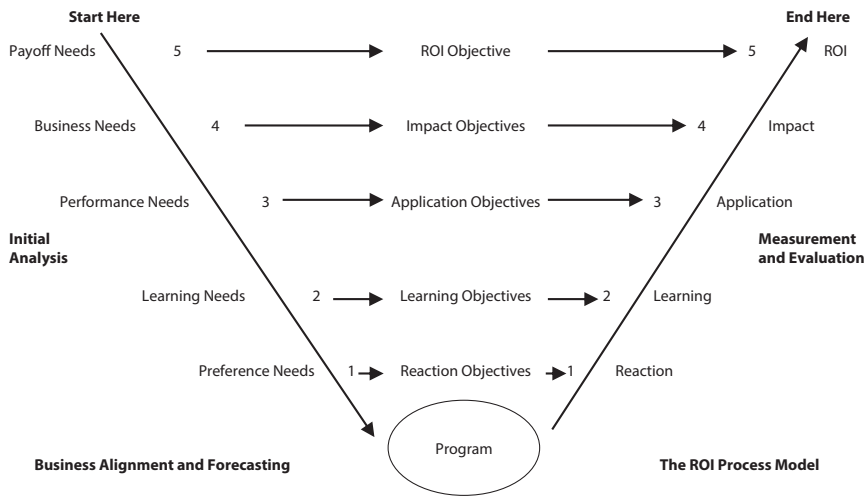


Figure 4.3 The ROI Methodology.

Next, the performance needs are examined, with the question: “What must we do to influence the business measures defined previously?” This step aligns the program with the business and may involve a series of analytical tools to solve the problem, analyze the cause of the problem, and ensure that the program is connected with business improvement in some way. This may appear to be quite complex, but in fact is a simple approach. A logical series of questions helps: What is keeping the business measure from being where it needs to be? If it is a problem, what is its cause? If it is an opportunity, what is hindering the measure from moving in the right direction? This step is critical because it provides the link to the program.

After performance needs have been determined, the learning needs are examined next by asking: What specific skills or knowledge need to change or improve so that performance can change? Every program involves a learning component, and this step defines what the participants or users must know and be able to do to make the program successful. The needed knowledge may be as simple as understanding a policy or be as complicated as learning many new competencies.

The final step is pinpointing the perceived value of the program. These are the preference needs. This is important to ensure that necessary knowledge will be acquired, and performance will solve the problem. Participants in the project should see it as important (to their success, health, family, or work; to customers, patients, or refugees; to the organization, community, or country), relevant (to the participant, organization, or situation), and necessary (to their work, for survival, or for growth). This level of analysis could also involve issues surrounding the scope, timing, structure, method, and budget for program implementation and delivery.

Collectively, these steps clearly define the issues that led to initiation of the project. When these preliminary steps are completed, the project can be positioned to achieve its intended results. The next two chapters focus on alignment and selecting the proper solution.

Understanding the need for a program is critical to positioning that project for success. Positioning a program requires the development of clear, specific objectives that are communicated to all stakeholders. Objectives should be developed for each level of need and should define success at each level, answering the question: “How will we know the need has been met?” If the criteria of success are not communicated early and often, process participants will go through the motions, with little change resulting. Developing detailed objectives with clear measures of success will position the project to achieve its ultimate objective.

Before a project or program is launched, forecasting the outcomes may be important to ensure that adjustments can be made, or alternative solutions can be investigated. This forecast can be simple, relying on the individuals closest to the situation, or it can be a more detailed analysis of the situation and expected outcome. Recently, forecasting has become a critical tool for program sponsors who need evidence that the program will be successful, before they are willing to invest in it. Because of its importance, forecasting is the sole focus of Chapter 16.

Using Design Thinking to Deliver and Measure Results

It is useful to think about using an innovation technique to deliver the value from a program or project and capture the data. A very popular concept in innovation is design thinking. This process rests on the assumption that when success is clearly defined, the entire team designs for that definition of success. If you want higher graduation rates, everyone works on that. If you want low costs, everyone is focused on that issue. If you want to reduce crime rates, the focus is there for every stakeholder. For most programs, success is achieved when the impact has occurred. This can mean low costs in a new product, higher graduation rates, or less crime.

With that success defined, the team works through a series of steps, using design thinking principles to reach the desired success. Although design thinking had its beginnings a few decades ago with the first book written in 1987, it really gained popularity with the book, *Change by Design*, by Tim Brown with IDEO [2]. A more recent book seemed to broaden the scope and the flexibility of the process, *Design Thinking for Strategic Innovation* [3]. Figure 4.4 lists some of the common design thinking principles, though they're not the same from one author to another. This figure lists 10 principles that seem to be universal, taking the first eight principles and placing them in the steps to implement a program. This creates a model to design for results, capture that data, and make the case for more investment [4]. This is fully described in Figure 4.5. For each of these steps, the design thinking principle used is highlighted. These steps form the structure for the ROI Methodology, which is an enhanced logic model.

“Every system is perfectly designed to get the results it gets.”

– W. Edwards Deming

Basic Principles

1. A problem-solving approach to handle problems on a systems level
2. A mindset for curiosity and inquiry
3. A framework to balance needs and feasibility
4. A way to take on design challenges by applying empathy
5. A culture that fosters exploration and experimentation
6. A fixed process and a tool kit
7. A storytelling process to inspire senior executives
8. A new competitive logic of business strategy
9. A means to solve complex or wicked problems
10. A means to reduce risks

Mootee, Idris. (2013). *Design Thinking for Strategic Innovation*. Hoboken, NJ: Wiley.

Figure 4.4 Design Thinking.

The ROI Process Model

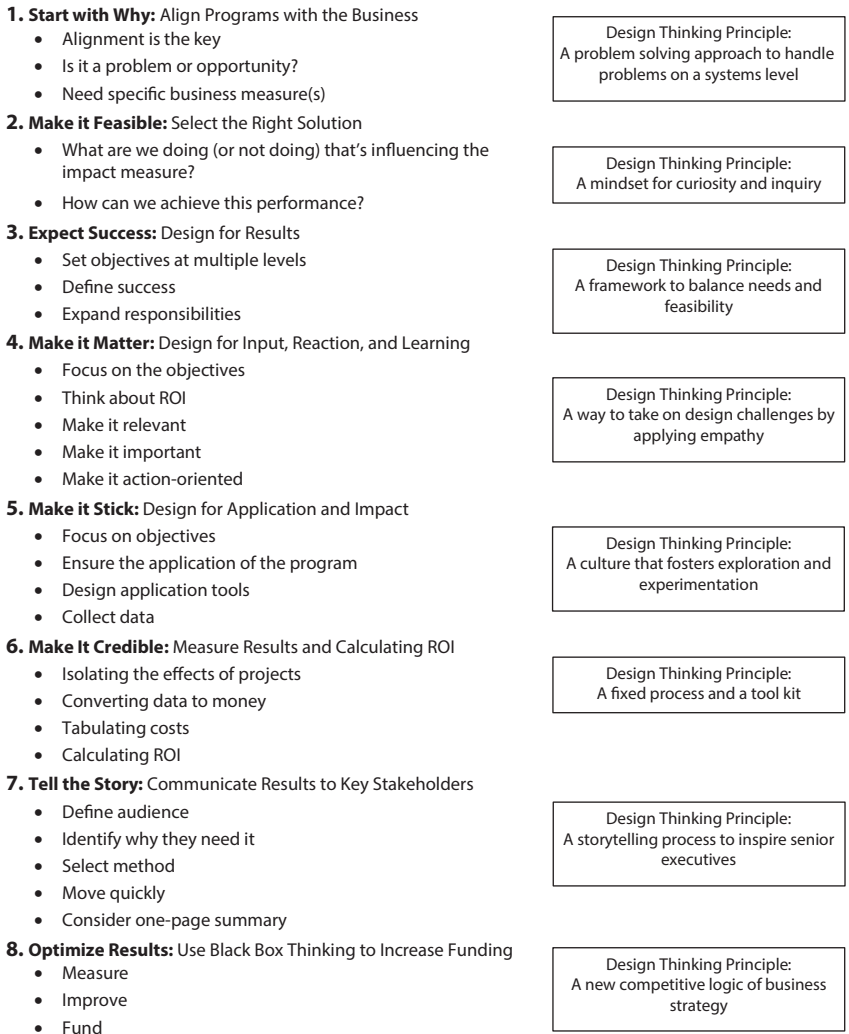
The challenge for many program leaders is to collect a variety of data along a chain of impact that shows the program's value. Figure 4.6 displays the sequential steps that lead to data categorized by the five levels of outcome data using the design thinking concepts. This figure shows the ROI Methodology, a step-by-step process beginning with the *why* and concluding with optimizing the results [5].

Plan the Evaluation

The first step of the ROI Methodology is business impact, connecting the program to important impact measures. *Start with Why* is Chapter 5. The next step is to select the proper solution to improve the impact measure. This is the program and is in Chapter 6, *Make it Feasible*. The third step involves the actions to define and plan for success. It involves defining success, setting objectives, and clarifying roles of the stakeholders to deliver success. This phase also involves several procedures, including understanding the purpose of the evaluation, confirming the feasibility of the planned approach, planning data collection and analysis, and outlining the details of the project. Chapter 7 covers *Expect Success*.

#1 - Start with Why: Align Programs with the Business

In this step, the design thinking principle is to use a problem-solving approach at the systems level. The first step is defining clearly why we're pursuing the program, and this is usually one or more impact measures,



Taken from Phillips, Patti P. and Jack J. Phillips. (2017). *The Business Case for Learning: Using Design Thinking to Deliver Business Results and Increase the Investment in Talent Development*. West Chester, PA: HRDQ and ATD Press.

Figure 4.5 Designing for Results.

described earlier. For many proposed programs, the impact is clearly known. For the public sector, a homeless program is reducing the number of homeless, a jobs program is creating jobs, a drug awareness program is reducing incidents of drug addiction, and a recidivism program is reducing incidents of returning to prison. Inside an organization, a marketing program may be securing new clients, a quality program may be reducing rework or waste, and a safety program may be reducing lost time accidents.

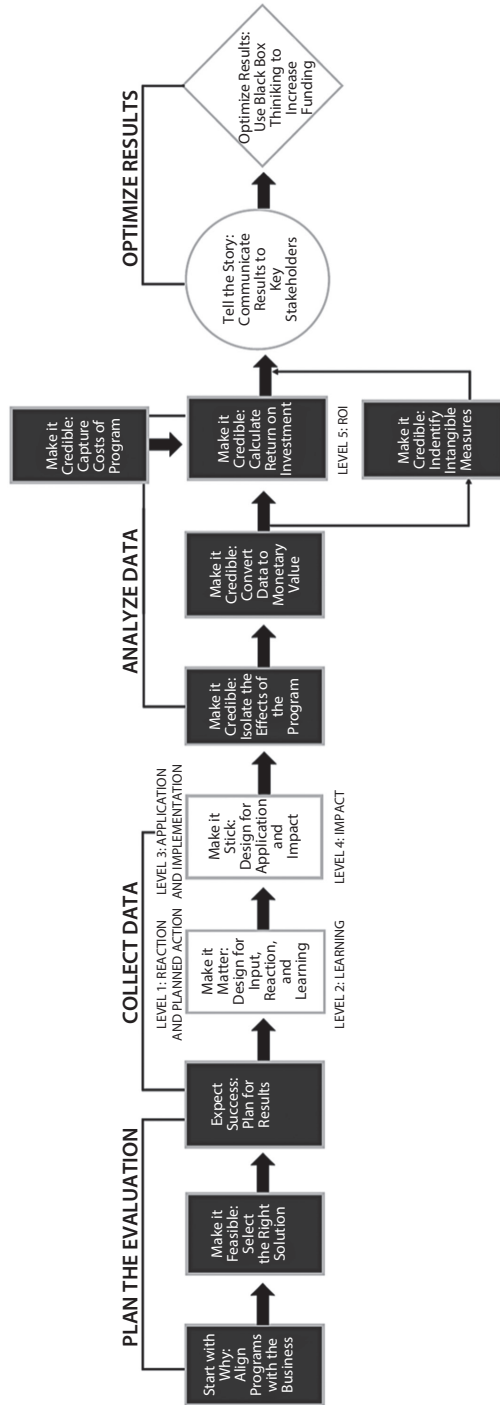


Figure 4.6 The ROI Methodology.

In some programs where new issues are tackled, the impact may not be clearly known, but the general categories of impact should certainly be identifiable. Essentially, this requires the program evaluator to ask the question: is it a problem we're trying to solve, or an opportunity we want to pursue? For example, the creators of Uber wanted a lower cost, more convenient, and efficient way to catch a ride from one place to another. The problem was that it was costing too much and taking too long for the ride. Taxis are inefficient and expensive. At the same time, they saw a great opportunity to build loyal customers, provide a great experience, and not only solve the problem of time and costs, but for comfort and experience. In this step, it's important to have as many specific measures identified as possible.

#2 - Make it Feasible: Select the Right Solution

In this step, the design thinking principle is a mindset for curiosity and inquiry. This means the way in which the program unfolds is identified. If you want to reduce domestic violence in Kazakhstan, what is the most feasible solution? Is legislation needed? Is a communication program needed? What is the right solution to get there? This defines what people will be experiencing and accomplishing as they are involved in the process. If it's tackling an existing process, is there a clear indication that what we're doing now is not working? Or, are we not doing something now that would make the impact measure improve? For example, if victims are not reporting incidents of domestic violence in Kazakhstan, what is needed to make that happen? The solution may be to create a law to make domestic violence illegal and require reporting incidents to the local police.

#3 - Expect Success: Design for Results

Four issues are addressed here. First, this step requires the success definition to be developed, particularly for the participants in the program, and this is usually at the impact level. The second issue is to make sure objectives are set for the program along the levels of outcomes mentioned in the previous data categories. The objectives at the application and impact level indicate what the individuals involved in the program will be doing to make the program successful and the impact that should be realized. The third issue is that this definition of success is provided to all the designers, developers, and other team members who are supporting the program. All of these stakeholders can clearly see what will be achieved and their role in making it successful. They will also design for the outcome. Lastly, the

fourth issue is to complete the planning documents: the data collection plan, the ROI analysis plan, and the project plan.

“Limitations live only in our minds. But if we use our imaginations, our possibilities become limitless.” – Jamie Paolinetti

Collect Data

Data collection is central to the ROI Methodology. Two steps are involved to verify success at various levels. Chapter 8, *Make it Matter*, measures success at Levels 0 (input), 1 (reaction), and 2 (learning). Chapter 9, *Make it Stick*, involves data collection to measure success at Levels 3 (application) and 4 (impact). Both hard data (representing output, quality, cost, and time) and soft data (including satisfaction, happiness, and image) are collected. Data are collected using a variety of methods, including:

- Surveys
- Questionnaires
- Tests
- Observations
- Interviews
- Focus groups
- Action plans
- Performance contracts
- Business performance monitoring

The important challenge in data collection is to select the method or methods appropriate for the setting and the specific program, within the time and budget constraints of the organization.

#4 - Make it Matter: Design for Input, Reaction, and Learning

In this step, the design thinking principle is a way to take on design challenges by applying empathy. Here, all members of the team are placing themselves in the position of the people who will use and support the program. In the Uber example, this requires the designers and developers working on the technology to think about the driver and how this technology can be used without being distracting and without any delays. Also, thinking about the customer, the customer experience must be designed from their perspective. They may be in a hurry, they may be at a location not easy to find, and they need to know not only an accurate description of when someone will be there, but where they are now and the progress they're making to pick them up. This step is focusing on making sure that the program will be relevant, important to the parties involved, and it's something that is action-oriented. It's something that they will do to make this work.

#5 - Make it Stick: Design for Application and Impact

The design thinking principle applied here is to create a culture that fosters exploration and experimentation. In this process, the designers and developers must do what's necessary to achieve success. They're following through on the plans, they're taking the steps, and there is action to achieve what needs to be accomplished to meet the end goal, the impact. They are exploring what works and does not work. This is essentially transferring what needs to be done into the environment where it is actually being done now; transferring it to the workplace, community, patient, or organization. This requires data collection to make sure the program is operating smoothly, and built-in tools are available to measure, drive, and influence the success at the application and impact levels.

Analyze Data

In this series of five steps with four chapters, the design thinking principle is using a fixed process and a toolkit, which are the steps in the ROI Methodology. These steps produce data that is important to all stakeholders, but particularly those who fund the program. These steps show the actual business results achieved with the program and the calculated financial ROI of this investment in the program.

#6 - Make it Credible: Isolate the Effects of the Program

An often-overlooked issue in evaluation is the process of isolating the effects of the program. In the next step, specific strategies are explored to determine the amount of outcome performance directly related to the project. This step is essential because many factors can influence performance data. The specific strategies of this step pinpoint the amount of improvement directly related to the program, resulting in increased accuracy and credibility of ROI calculations. The following techniques have been used by program evaluators to tackle this important issue:

- Control group analysis
- Trend line analysis
- Mathematical modeling
- Participant estimates
- Manager or significant other estimates
- Senior management estimates
- Experts' input
- Customer input

Collectively, these techniques provide a comprehensive set of tools to handle the important and critical issue of isolating the effects of the

program. Chapter 10, *Make it Credible: Isolate the Effects of the Program*, is devoted to this important step in the ROI Methodology.

#7 - Make it Credible: Convert Data to Monetary Value

To calculate the return on investment, impact data are converted to monetary values and compared with program costs. This requires a value be placed on each unit of impact data connected with the program. Many techniques are available to convert data to monetary values. The specific technique selected depends on the type of data and the situation. The techniques include:

- Use the value add of output data as standard values
- Use the cost of quality as a standard value
- Convert time savings to wage and employee benefits (standard value)
- Calculate the value using an analysis of historical costs
- Use internal and external experts to provide value
- Search external databases for the value
- Use participant estimates
- Use manager estimates
- Locate soft measures mathematically linked to easy to value measures

This step in the ROI model is absolutely necessary to determine the monetary benefits of a program. The process is challenging, particularly with soft data, but can be methodically accomplished using one or more of these strategies. Because of its importance, this step in the ROI Methodology is described in detail in Chapter 11, *Make it Credible: Convert Data to Monetary Value*.

#8 - Make it Credible: Identify Intangible Measures

In addition to tangible, monetary benefits, the intangible benefits—those not converted to money—are identified for most programs. Intangible benefits include items such as:

- | | |
|------------------------------|---------------------------------|
| • Enhanced work-life balance | • Improved health status |
| • Improved image | • Improved networking |
| • Less stress | • Enhanced patient satisfaction |
| • Increased engagement | • Improved service |
| • Improved quality of life | • Fewer complaints |
| • Increased brand awareness | • Reduced conflict |

During data analysis, every attempt is made to convert all data to monetary values. All hard data—such as output, quality, and time—are converted to monetary values. The conversion of soft data is also attempted for each data item. However, if the process used for conversion is too subjective or inaccurate, and the resulting values lose credibility in the process, then the data are listed as intangible benefits with the appropriate explanation. For some programs, intangible, nonmonetary benefits are extremely valuable, and often carry as much influence as the hard data items. Chapter 12, *Make it Credible: Identify the Intangibles*, is devoted to the intangible benefits.

#9 - *Make it Credible: Capture Costs of Program*

An important part of the ROI equation is the denominator, the calculation of program costs. Tabulating the costs involves monitoring or developing all the related costs of the program targeted for the ROI calculation. Among the cost components to be included are:

- Initial analysis costs
- Cost to design and develop the program
- Cost of program materials
- Costs for the program team
- Cost of the facilities for the program
- Travel, lodging, and meal costs for the participants and team members
- Participants' salaries (including employee benefits)
- Facilitator costs, if appropriate
- Administrative and overhead costs, allocated in some convenient way
- Evaluation costs

The conservative approach is to include all these costs so the total is fully loaded. Chapter 13, *Make it Credible: Capture Costs of the Program and Calculate ROI*, includes this step in the ROI Methodology.

#10 - *Make it Credible: Calculate the Return on Investment*

The return on investment is calculated using the program benefits and costs. The benefits-costs ratio (BCR) is calculated as the program benefits divided by the program costs. In formula form:

$$BCR = \frac{\text{Program Benefits}}{\text{Program Costs}}$$

The return on investment is based on the net benefits divided by program costs. The net benefits are calculated as the program benefits minus the program costs. In formula form, the ROI becomes:

$$ROI(\%) = \frac{\text{Net Program Benefits}}{\text{Program Costs}} \times 100$$

This is the same basic formula used in evaluating other investments, in which the ROI is traditionally reported as earnings divided by investment. Chapter 13, *Make it Credible: Capture Costs of the Program and Calculate ROI*, provides more detail.

Optimize Results

The next category in the ROI Methodology is reporting and optimizing, with two critical steps that are often deficient in the degree of attention and planning required to ensure success. The reporting step involves developing appropriate information in impact studies and other brief reports. In most ROI studies, several audiences are interested in and need the results. Improvements are made in the program which lead to optimization. This section also includes the process of using the results to increase funding for the program in the future.

#11 - Tell the Story: Communicate Results to Key Stakeholders

In this step, the design thinking principle is the use of storytelling. Even with results in hand, the efforts are not finished. The results must be communicated to all the stakeholders as quickly as possible to let them know the success of the program. In case of a lack of success, the data will show what needs to improve to make it better. Storytelling will inspire senior executives and other key stakeholders. Audiences love stories, and now the story can be told with different levels of data, a total of six types. It makes a more powerful story when they can clearly see that the dramatic events, the interesting anecdotes, and the insightful comments are backed up with proof that this program has made a difference. Chapter 14, *Tell the Story: Communicate Results to Key Stakeholders*, is devoted to this critical step in the ROI process.

#12 - Optimize the Results: Use Black Box Thinking to Increase Funding

The design principle used is a new competitive logic of business strategy. The key concept is to make sure that programs are properly supported and

funded. The next step is to use a concept of black box thinking to analyze the results and use them to increase funding. This can be accomplished when improvements are made, especially if there's a lack of improvement. Black box thinking focuses on serious process improvement when a failure is identified. Even with success, improvements are made to make it deliver even more value. Ultimately, the ROI is optimized, and this optimization leads to the allocation of more funds. This builds the case for more investment (instead of less investment) in this program because there is a positive return on the investment. This series of events are powerful: design for the needed results, capture data to tell a compelling story, use data to improve the program and optimize ROI, and then make the case for more funding. It's a novel way to think about the power of an innovation technique (design thinking) to show the value for money. Chapter 15, *Optimize Results: Use Black Box Thinking to Increase Funding*, focuses on this issue.

Operating Standards and Philosophy

To ensure consistency and replication of impact studies, operating standards must be applied as the process model is used to develop ROI studies. The results of the study must stand alone and must not vary with the individual who is conducting the study. The operating standards detail how steps and issues of the process will be handled. Figure 4.7 shows the Twelve Guiding Principles of the ROI Methodology that form the basis for its operating standards.

The guiding principles serve not only to consistently address each step, but also to provide a much-needed conservative approach to the analysis. A conservative approach may lower the actual ROI calculation, but it will build credibility and secure buy in and support from the target audience.

Implementing and Sustaining the Process

A variety of environmental issues and events will influence the successful implementation of the ROI process. These issues must be addressed early to ensure its success. Specific topics or actions include:

- A policy statement concerning results-based programs and projects
- Procedures and guidelines for different elements and techniques of the evaluation process

1. When conducting a higher-level evaluation, collect data at lower levels.
 2. When planning a higher-level evaluation, the previous level of evaluation is not required to be comprehensive.
 3. When collecting and analyzing data, use only the most credible sources.
 4. When analyzing data, select the most conservative alternative for calculations.
 5. Use at least one method to isolate the effects of a project.
 6. If no improvement data are available for a population or from a specific source, assume that little or no improvement has occurred.
 7. Adjust estimates of improvement for potential errors of estimation.
 8. Avoid use of extreme data items and unsupported claims when calculating ROI.
 9. Use only the first year of annual benefits in ROI analysis of short-term solutions.
 10. Fully load all costs of a solution, project, or program when analyzing ROI.
 11. Intangible measures are defined as measures that are purposely not converted to monetary values.
 12. Communicate the results of the ROI Methodology to all key stakeholders.
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Figure 4.7 Twelve Guiding Principles of ROI.

- Formal meetings to develop staff skills with the ROI process
- Strategies to improve management commitment to and support for the ROI process
- Mechanisms to provide technical support for questionnaire design, data analysis, and evaluation strategy
- Specific techniques to place more attention on results

The ROI Methodology can fail or succeed based on these implementation issues.

The ROI Methodology should undergo periodic review by the organization. An annual review is recommended to determine the extent to which the process is adding value. This final element involves securing feedback from the process and determining how well it is understood and applied. Essentially, this review follows the process described in this book to determine the ROI of the ROI Methodology. Chapter 17 focuses on implementing and sustaining the use of ROI.

Benefits of This Approach

The methodology presented in this book has been used consistently and routinely by thousands of organizations worldwide over the past 25 years. In some fields and industries, it is more prominent than in others. Much has been learned about the success of this methodology, and the benefits it can bring to organizations.

Aligning with Business

The ROI Methodology ensures alignment with business impact, enforced in three steps. First, even before the program is initiated, the methodology ensures that alignment is achieved upfront, at the time the program is validated as the appropriate solution. Second, by requiring specific, clearly defined objectives at the impact level, the program focuses on the ultimate outcomes, in essence driving the business measure by its design, delivery, and implementation. Third, in the follow-up data, when the business measures may have changed or improved, a method is used to isolate the effects of the program on that data, consequently proving the connection to that business measure (i.e., showing the amount of improvement directly connected to the program and ensuring there is business alignment).

Validating the Value Proposition

Most programs are undertaken to deliver value. As described in the first three chapters, the definition of value may be unclear, or may not be what a program's various sponsors, organizers, and stakeholders desire. Consequently, shifts in value often occur. When the values are finalized, the program's value proposition is detailed. The ROI Methodology can forecast the value in advance; and if the value has been delivered, it verifies the value proposition agreed to by the appropriate parties. Chapter 16, *Forecast the ROI*, focuses on this issue.

Improving Processes

The ROI Methodology is a process improvement tool, by design and by practice. It collects data to evaluate how things are, or are not, working. When things are not where they should be—as when programs are not proceeding as effectively as expected—data are available to indicate what must be changed to make the program more effective. When things are working well, data are available to show what else could be done to make them better. As a program is conducted, the results are collected, and feedback is provided to the various stakeholders for specific actions for improvement. These changes drive the program to better results, which are then measured while the process continues. This continuous feedback cycle is critical to process improvement and is inherent in the ROI Methodology approach. In essence, the process uses design thinking principles to design for the results needed.

Enhancing the Image and Building Respect

Many functions, and even entire professions, are criticized for being unable to deliver what is expected. Consequently, their public image suffers. The ROI Methodology is one way to help build the respect a function or profession needs. The ROI Methodology can make a difference in any function, and not just those under scrutiny. Many executives have used ROI to show the value of a program, perhaps changing the perception of a program from one based on activity to one that credibly adds value. This methodology shows a connection to the bottom line, and shows the value delivered to stakeholders. It removes issues about value and a supposed lack of contribution to the organization. Consequently, this methodology is an important part of the process of changing the image of the organization, externally in the community, and building respect for various programs.

Improving Support

Securing support for programs and projects is critical, particularly with organizations. Many programs enjoy the support of the top-level executives who allocated the resources to make the programs viable. Unfortunately, some middle-level managers and administrators may not support certain programs because they do not see the value the programs deliver in terms these managers appreciate and understand. For nonprofits, support is needed from significant others who can have tremendous influence on participants. Having a methodology that shows how a program is connected to important business goals and objectives can change this support level. When middle managers and significant others understand that a program is helping them meet specific performance indicators, they will usually support the process, or will at least resist it less. In this way, the ROI Methodology can improve needed support.

This is more important when many individuals are involved in program activities. For example, as program implementation becomes a part of everyone's job, the support level needs to move from "we are involved in program implementation activities when we have time" to "program implementation is our top priority."

Justifying or Enhancing Budgets

Some organizations have used the ROI Methodology to protect current budgets or support proposed budgets. Because the methodology shows the impact or ROI expected or achieved with specific programs, the data

can often be leveraged into budget requests. When a particular program is budgeted, the amount budgeted is often in direct proportion to the value that the program adds. If little or no credible data support the contribution, the budgets are often trimmed—or at least not enhanced. Bringing accountability to this level is one of the best ways to secure future funding.

Building Productive Partnerships

Almost every organization attempts to partner with partners and other key managers in the organization or community. Unfortunately, some managers may not want to be partners. They may not want to waste time and effort on a relationship that does not help them succeed. They want to partner only with groups and individuals who can add value and help them in meaningful ways. Showing the program results will enhance the likelihood of building these partnerships, with the results providing the initial impetus for making the partnerships work.

Final Thoughts

This chapter introduced the ROI Methodology that underlies the Value for Money approach. The chapter briefly presented the different elements and 12 steps in the ROI Methodology, and the standards necessary to understand how the ROI Methodology works in practice. The chapter concluded with the benefits of using this approach. It serves as a quick reference guide to the ROI Methodology and may be useful for clients, sponsors, or donors. The next eleven chapters provide more details on the 12 steps of the ROI Methodology. The next chapter takes a closer look at how to establish the needs for your program.