VALUE FOR INVESTMENT

A practical evaluation theory

Julian King

September, 2014

Table of Contents

1 *Background*

2 *A model for evaluating value for investment*

3 *Putting theory into action*

4 *So what?*

5 *Now what?*

King, J. (2014). *Value for Investment: a practical evaluation theory.* Auckland: Julian King & Associates. www.julianking.co.nz

V1. 140908

1

Background

Tena koutou katoa
Warmest greetings to you all

I am a public policy consultant from Auckland, New Zealand. My practice specializes in evaluation and health economics.
In this booklet I propose a model for evaluating value for investment in social programs, by integrating economic and evaluative thinking.

Image: NASA

Image: Sonia Felipe Photography

What if we could integrate economic and other values?

In 2012, at the American Evaluation Association Conference in Minneapolis, I presented on 'Balancing Multiple Approaches to Valuing in Multicultural Evaluation Settings'.

I asked, What if we could integrate economic and other values?

The following pages present a model proposing how that should be done.

What if we didn't have to value everything in $$? What if we could use a mix of values (e.g., social, cultural, environmental, economic) to provide a clear answer to the value for investment question? What if we could evaluate value for investment on social justice criteria as well as efficiency?

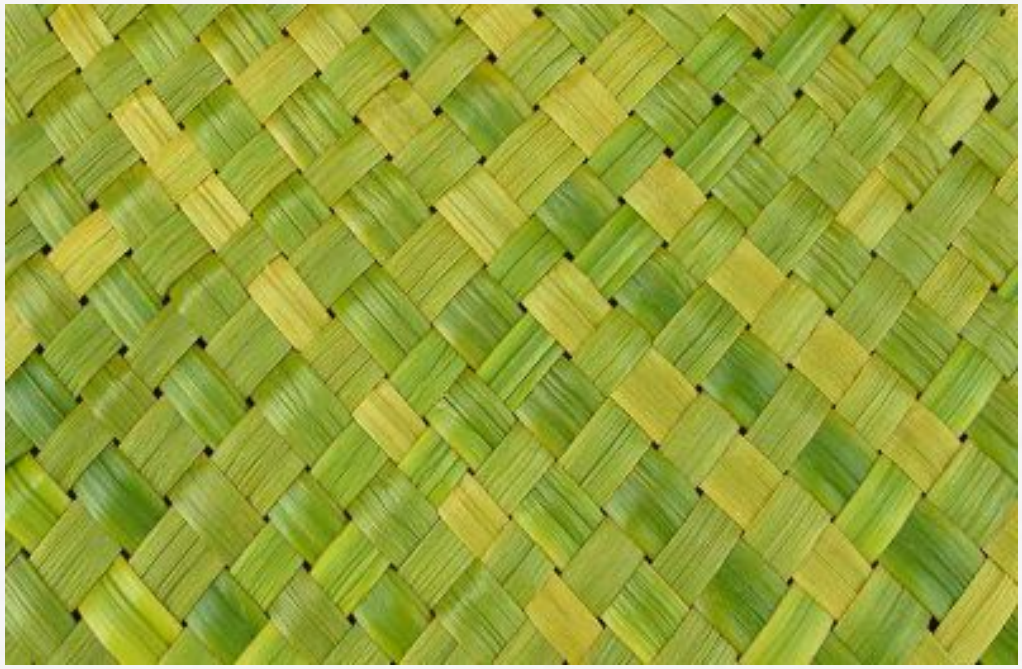


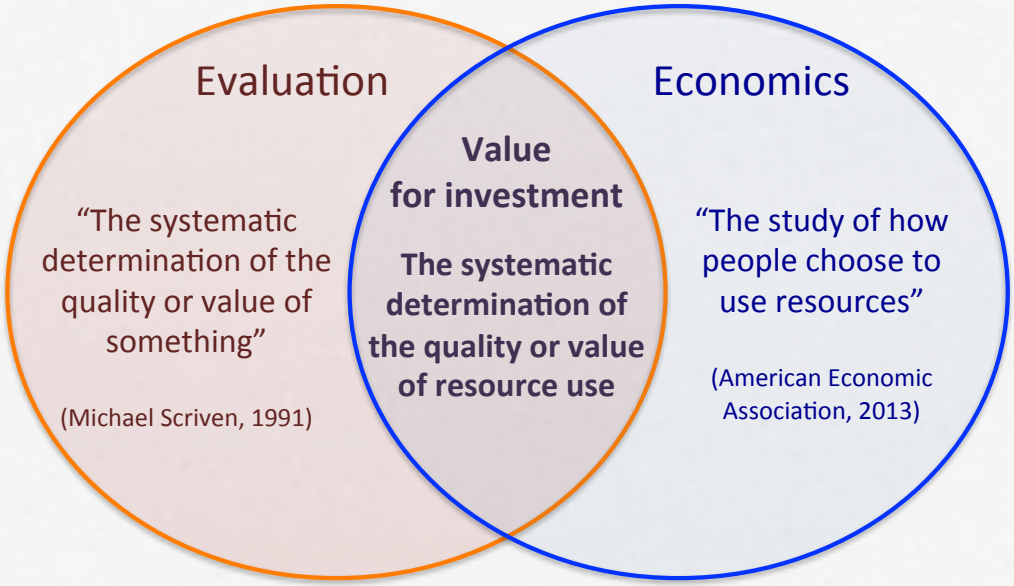
Image: Colwill School, Auckland NZ

Julnes G, Schwandt T, Davidson J, King J. 2012. *Valuing Public Programs and Policies in Complex Contexts: Balancing Multiple Values, Multiple Cultures, and Multiple Needs*. Panel presentation, American Evaluation Association Conference, Minneapolis.

2

A model for evaluating value for investment

A syncretic model



Syncretism, the combination of different forms of belief or practice, is characterized by the merger and analogising of ostensibly discrete paradigms, thus asserting an underlying unity.

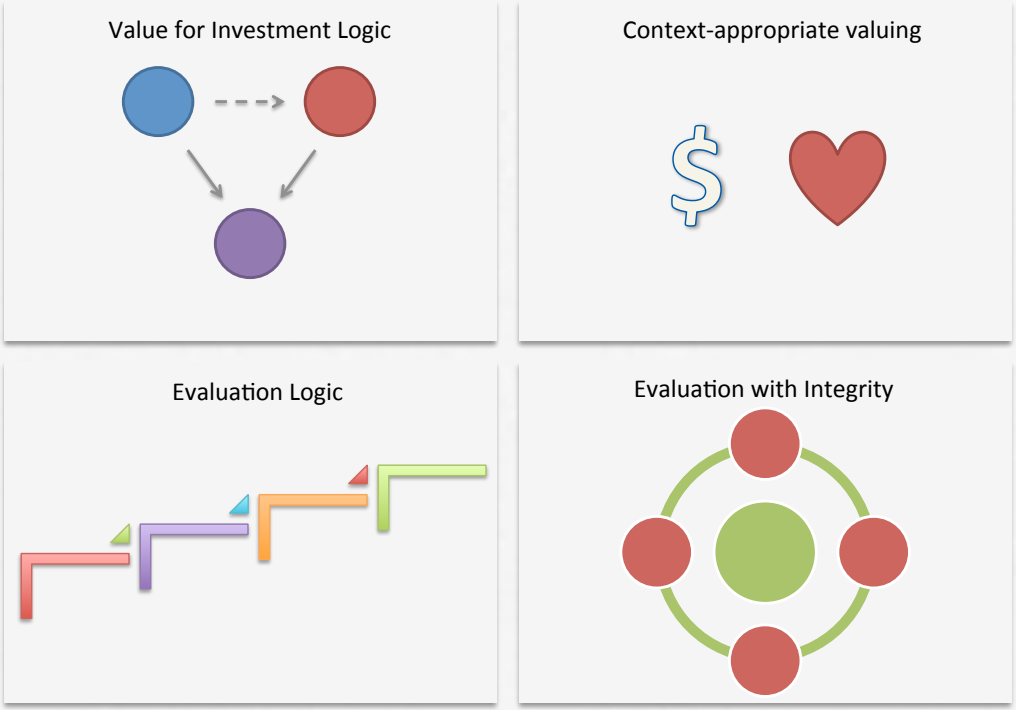
For example, syncretism can be observed in politics, religion, culture and the arts.

(Merriam-Webster Dictionary & Wikipedia)

The proposed model combines evaluative and economic thinking. It positions value for investment (VFI) at the intersection of the two disciplines.

The concept of VFI, simply put, is about ***using resources well***. Time, money and other resources are constrained. There is an opportunity cost associated with their use. It is important for the betterment of society to invest scarce resources where they generate the greatest value.

A model for evaluating value for investment

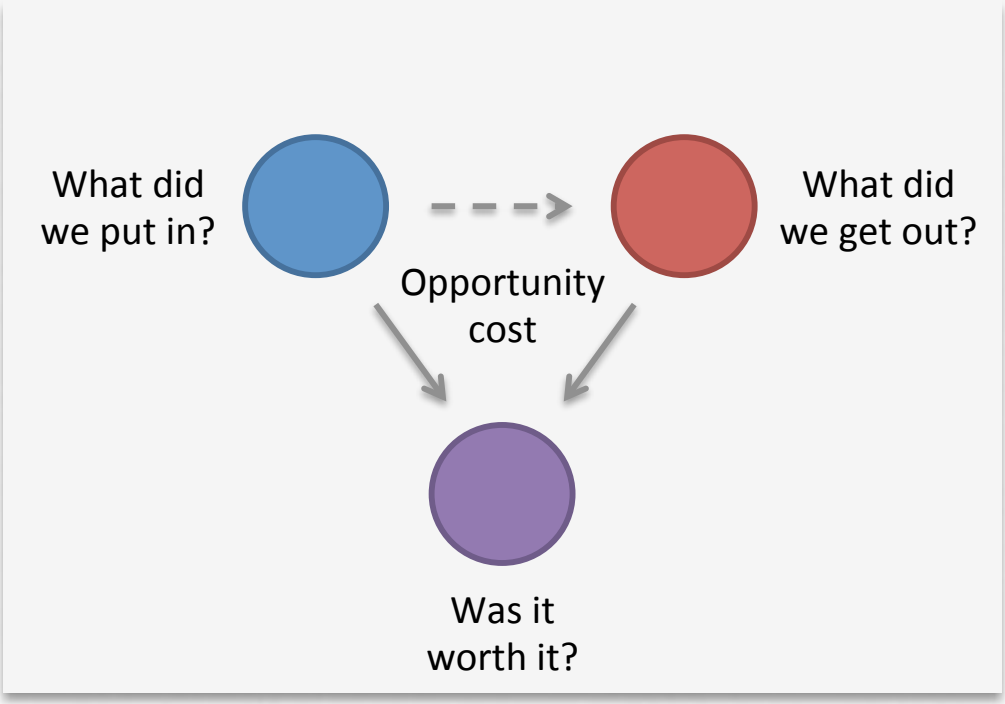


The model has four components. Together, these components specify what good evaluation of value for investment should look like – regardless of what method is used.

The model aims to be sufficiently specific to guide evaluation practice, and sufficiently broad to be relevant to any setting where the objective is to evaluate the value derived from a social investment.

Value for investment logic

Answer the evaluative questions



Regardless of the approach taken (economic or other), it is only by ***examining resources invested, value derived from their investment, and by having some basis for reconciling the two,*** that questions about VFI can be comprehensively addressed.

If we don't address these three questions, we are not evaluating value for investment.

Underlying the evaluation of VFI is the concept of opportunity cost: "Are we satisfied the resources should be used in this way and not some other way?" (Drummond et al, 2005)

Context-specific valuing

It's not as simple as boiling everything down to dollars

If the most valuable outcome is the extent to which people feel culturally confident and valued for who they are, recognized for their gifts and talents, because without this, other outcomes or impacts would struggle to take hold… how do we value this? Could we, or should we, put a dollar value on this? – Kate McKegg

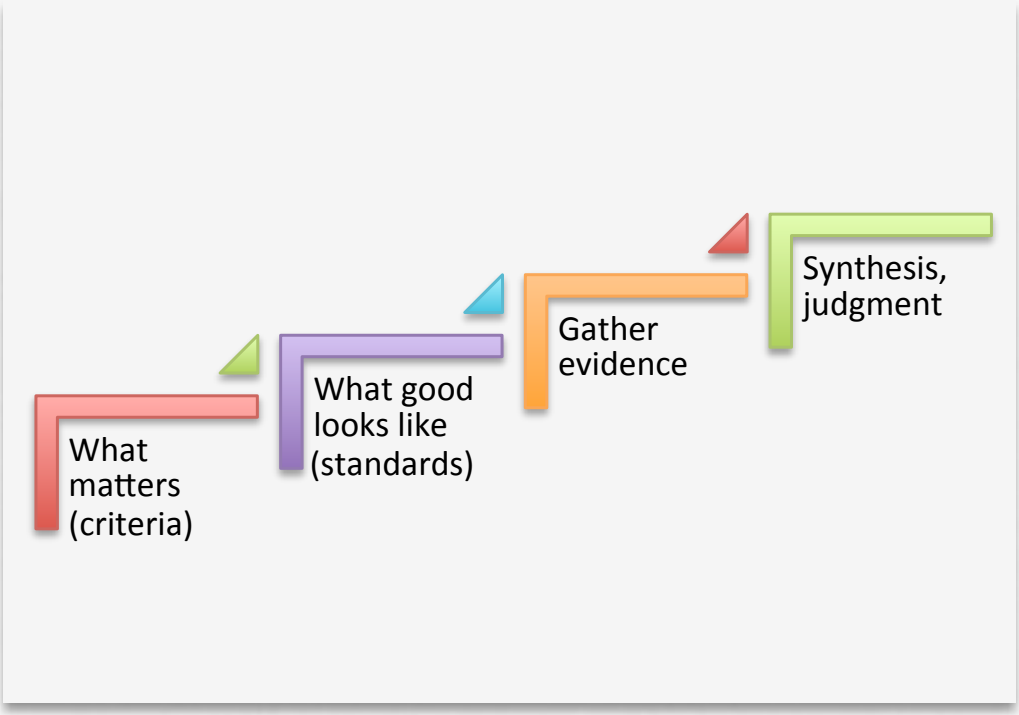
Tangible Intangible

Not everything that is valuable has a monetary value, and not everything with a monetary value is valuable.
(With apologies to Albert Einstein).

With economic methods and tools we can value anything in monetary units. There are also other ways of valuing in evaluation (For example, see Julnes, 2012). Methods can be matched to context. And we can mix methods.

Evaluation logic

It's about the reasoning, not the methods

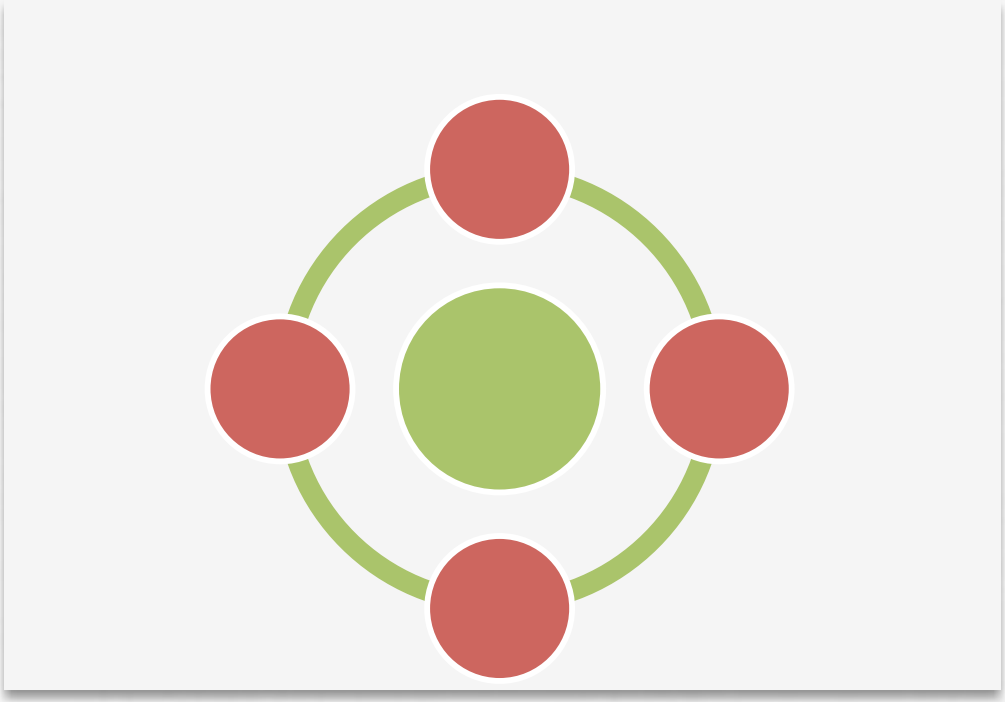


In order to evaluate VFI, we need to establish criteria (determine what matters), and then set standards for each criterion (describe what great, good, just-ok and poor VFI looks like). Then we need to gather and synthesize evidence to support an evaluative judgment.

That's what evaluation is! (See Fournier, 1995).

Evaluation with integrity

It matters how we evaluate VFI



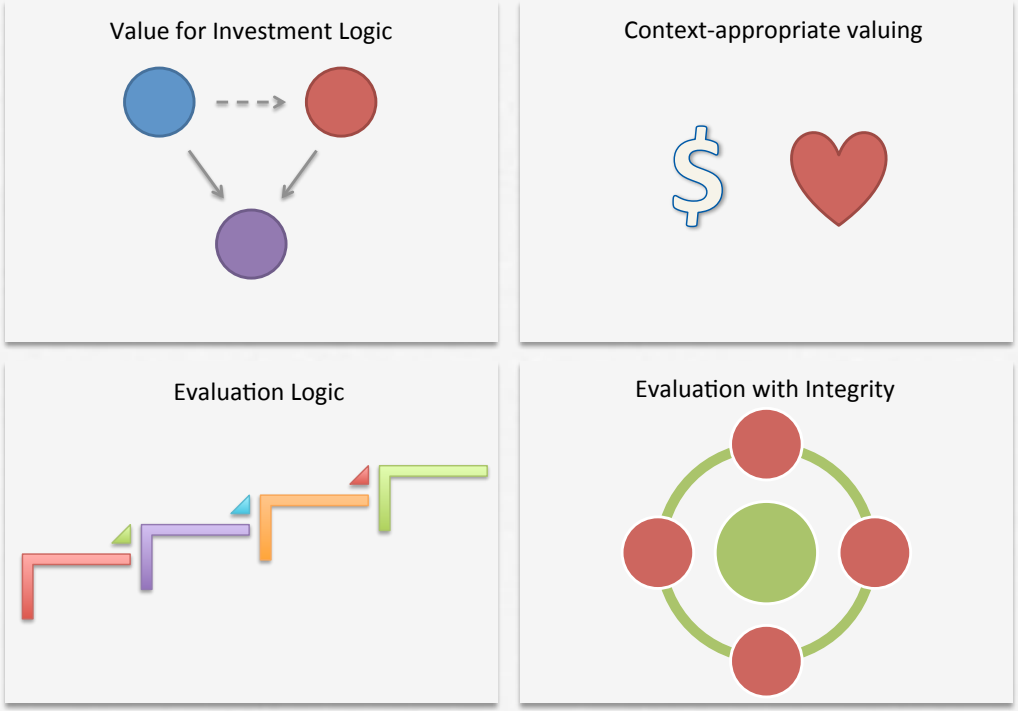
Evaluation of VFI should be conducted with integrity, in accordance with program evaluation standards.

The diagram above comes from New Zealand's draft evaluation standards, which are available at: http://www.anzea.org.nz/wp-content/uploads/2012/07/140704-Exposure-Draft.pdf

3

Putting theory into action

A practical theory



The four pieces fit together into a simple model that can be used to guide practice.

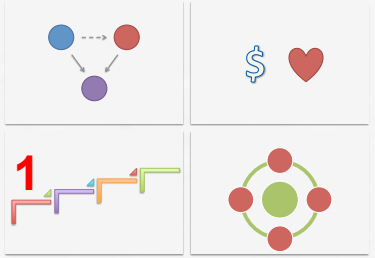
The crux is to develop criteria and standards that specify what "worth it" would look like, bearing in mind resources invested and opportunity cost.

And, when doing so, to consider dimensions of value that can naturally be expressed in monetary terms (the tangibles), and dimensions that could be expressed in either monetary or other ways (the intangibles).

It matters how evaluation of VFI is conducted. Program evaluation standards guide evaluation with integrity.

Step one

Establish criteria



The first step is to create a matrix that combines VFI logic (what did we put in; what did we get out; was it worth it) with context-specific valuing (tangible; intangible).

What matters (criteria)	In	Out	Worth
Tangible			
Intangible			

Use the matrix to account for all inputs that have an opportunity cost (including tangibles like funding, and intangibles like knowledge, cultural capital and networks).

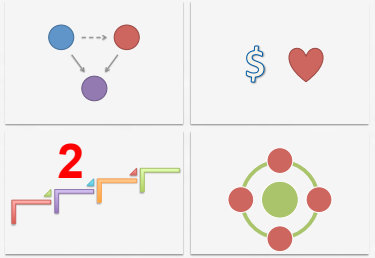
Then do the same for the intended outcomes.

Finally, consider on what basis the investment would be considered worth the resources used, bearing in mind opportunity cost. In other words, what are the criteria we will use to evaluate value for investment?

In keeping with good evaluation practice, consider how this should be done and who should be included in this process.

Step two

Set standards



The second step is to specify standards for our criteria of value for investment.

What would 'just worth it' look like? How about 'well worth it'? And how would we know if the program was 'not worth' the investment?

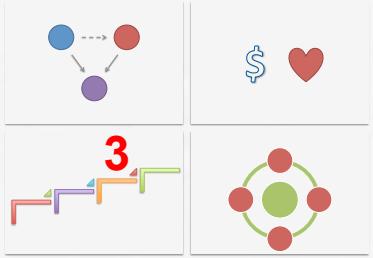
Again, consider how and with whom this step should be undertaken.

What matters (criteria)	In	Out	Worth
Tangible			
Intangible			

What good looks like (standards)	Criteria
Excellent value for investment	
Very good value for investment	
Good value for investment	
Just worth it	
Not worth it	

Step three

Gather evidence



The third step is to determine what credible evidence is needed to address our criteria of value for investment, and to gather that evidence.

Depending on context, this evidence could include tangible and/or intangible dimensions, and it could incorporate economic and/or other methods of data gathering and analysis.

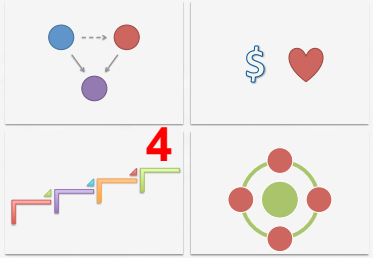
Guided by evaluation standards, of course.

Credible evidence	Financial data	Service data	Outcome data	Interviews	Surveys	etc…
Inputs • Tangible • Intangible						
Outputs & outcomes • Tangible • Intangible						
Value for investment						

What good looks like (standards)	**Criteria**
Excellent value for investment	
Very good value for investment	
Good value for investment	
Just worth it	
Not worth it	

Step four

Synthesis



The final step is to synthesize the evidence to reach an overall judgment about value for investment.

The evaluation findings might say something like:

"The program involved an investment of a, b and c, and achieved d, e and f. On the basis of x, y and z, we conclude that the program was worth the investment (or not)."

Credible evidence	Financial data	Service data	Outcome data	Interviews	Surveys	etc…
Inputs • Tangible • Intangible						
Outputs & outcomes • Tangible • Intangible						
Value for investment						

What good looks like (standards)	**Criteria**
Excellent value for investment	
Very good VFI	
Good VFI	
Just worth it	
Not worth it	

An example

Oakden, King & Allen (2014). Evaluation of the Sustainable Farming Fund.

The Sustainable Farming Fund (SFF) invests in grass-roots projects with the aim of delivering economic, environmental and social benefits to New Zealand's primary industries and rural communities. In the last 14 years it has invested $122.8 million on 906 projects.

Working closely with the Ministry for Primary Industries (MPI), Judy Oakden, Dr Will Allen and Julian King undertook an evaluation of the SFF during 2013. The evaluation assessed outcomes, value for investment and possible adaptations to ensure the SFF remains effective and fit for purpose.

Value for investment was assessed using an evaluative rubric that integrated economic, environmental, social and cultural values within the underpinning logic adopted by the SFF (the Bennett's Heirarchy).

The evaluation drew together evidence from a range of sources including review of the SFF database, online survey of project managers, case studies of project clusters, workshops with MPI staff and fund managers, and review of past evaluations (including economic evaluations) and SFF documentation.

What we found

Image: Ed Cook

The Sustainable Farming Fund is good value for investment. It makes a valuable and worthwhile contribution to primary industries and rural communities. It supports the interests of science, the environment, agribusiness and the community in ways not replicated by other funding programmes.

The evaluation was extensively quoted in a report to the OECD Trade and Agricultural Directorate which highlighted the value of 'soft measures' to support agri-environmental policy.

See: http://www.kinnect.co.nz/sustainable-farming-fund/

4

So what?

The current separation of evaluation and economics isn't good enough

Currently the disciplines of evaluation and economics tend to operate as competing or complementary approaches when it comes to evaluating value for investment.

Few evaluators are trained in economic analysis, and ***resource use is rarely included in the scope of program evaluations*** (Herman et al, 2009; Levin, 1987; Persaud, 2007; Yates, 2012).

Conversely, economic evaluation is grounded in economic theory and methods, which ***privilege quantitative forms of evidence and monetary forms of valuation***.

Both disciplines, and our capacity to evaluate value for investment for social betterment, are worse off as a result.

Economics, on its own, is not always enough

As evaluators, we are aware that decision makers need to know whether their programs are worth the investment. And we are also aware that ***the real value of those programs to communities can be lost in translation when expressed in monetary terms***.

Economic methods like cost benefit analysis (CBA) and cost-effectiveness analysis (CEA) are commonly accepted as the go-to methods for evaluating value for investment. But like any set of methods, ***economic evaluation has strengths and limitations***, and works better in some circumstances than others.

For example, CBA reflects a particular set of utilitarian objectives based on Pareto efficiency. ***It doesn't and can't accommodate normative judgments of equity or social justice***.

If economic approaches to valuing dominate over other approaches, there is a risk that important values may be excluded, resulting in a "distorted understanding of the public interest and a diminished capacity for evaluation in general to serve this interest" (Julnes, 2012).

We have to actually answer the value question

Economic ways of looking at value quite often focus on a number as if that's the answer. It's not. It's not that the number isn't relevant. But it's just one piece of evidence. We still have to answer the evaluative question. – Jane Davidson

The way to answer this question is by using evaluation logic, value for investment logic, context-appropriate valuing, and evaluation standards.

Image: Judy Oakden

A syncretic approach strengthens evaluation of VFI

There is much to gain by ***integrating economic evaluation and evaluation-specific methodology***. Areas of synergy include the ability to:

- Include resource use as an integral part of program evaluation
- Integrate economic metrics with other ways of valuing, to systematically encompass broader conceptions of the public interest
- Triangulate evidence from mixed methods to reach a more comprehensive understanding of value for investment
- Synthesize findings to reach a holistic evaluative conclusion.

The model presented in this booklet is flexible. Depending on context, it can be applied to a pure CBA, a mix of economic and other methods, or to a qualitative evaluation.

When applied to a pure CBA, the model adds explicit evaluation logic and program evaluation standards. When applied to mixed methods, it offers a framework for addressing the value for investment question without the need for quantitative or monetary measures.

There are no gold standards

The tensions between economic and evaluation-specific approaches to valuing have been likened to the quant-qual debate and the causal wars, in that both controversies involved opposing sets of world views in which one side maintained that a particular set of methods (quantitative data analysis and randomised controlled trials respectively) represented a gold standard while the other argued that methods should be tailored to context (Davidson, 2006; Julnes, Schwandt, Davidson & King, 2012).

In both cases, the latter sides' appeals to a higher-order, overarching logic offered a basis for a set of principles framing the dominant methods as conditionally valid and sometimes appropriate contributors to mixed methods evaluation, rather than being unconditionally superior methods. Although these debates are not over, evaluators are at least armed with robust frameworks to design and defend context-appropriate methodologies.

The proposed model is aimed at making a similar contribution by providing an overarching framework to guide the use of economic methods together with other approaches.

5

Now what?

We mustn't leave value for investment to the economists

Bring evaluation and economics together

Economic evaluation offers a powerful set of tools for evaluating value for investment – and evaluation-specific methodology can enhance it. By mixing the two disciplines we can tailor methods to context and evaluate value for investment in ways that are more valid, credible, ethical and useful.

So – include an economist on your evaluation team, and use the model to integrate economic methods within your overarching evaluation framework. Make resource use and opportunity costs explicit, and include both tangible and intangible dimensions of value.

I welcome your critique and questions on the model. If you try using it in your practice, I would love to hear how it works out, including any strengths, limitations, challenges and improvements.

Tēnā rāwā ata koe – thank you.

References

Davidson, E.J. (2006). The RCTs-Only Doctrine: Brakes on the Acquisition of Knowledge? *Journal of Multidisciplinary Evaluation*, No. 6.

Drummond, M. F., Sculpher, M. J., Torrance, G. W., O'Brien, B. J., & Stoddard, G. L. (2005). *Methods for economic evaluation of health care programs*. Oxford: Oxford University Press.

Fournier D. (1995). Establishing Evaluative Conclusions: A Distinction Between General and Working Logic. *New Directions for Evaluation*. No. 68.

Herman, P.M., Avery, D.J., Schemp, C.S., Walsh, M.E. (2009). Are cost-inclusive evaluations worth the effort? *Evaluation and Program Planning*. 32(1). Feb 2009, p55-61.

Julnes, G. (2012) (Ed). Promoting Valuation in the Public Interest: Informing Policies for Judging Value in Evaluation. *New Directions for Evaluation*, 133, pp 1-2; 3-15; 109-129

King, J., McKegg, K., Oakden, J., Wehipeihana, N., (2013). Rubrics: a method for surfacing values and improving the credibility of evaluation. *Journal of Multidisciplinary Evaluation*. Vol 9, Issue 21. http://journals.sfu.ca/jmde/index.php/jmde_1/article/view/374

Levin, H. (1987). Cost-Benefit and Cost-Effectiveness Analyses. In D.S. Cordray, H.S. Bloom, and R.J. Light (Eds). Evaluation Practice in Review. *New Directions for Program Evaluation*. No. 34. San Francisco: Jossey-Bass.

Persaud, N. (2007). Is cost analysis underutilized in decision making? *Journal of Multidisciplinary Evaluation* (JMDE:2).

Yates, B.T. (2012). Step arounds for common pitfalls when valuing resources used versus resources produced. Promoting Valuation in the Public Interest: Informing Policies for Judging Value in Evaluation. *New Directions for Evaluation*, 133, pp 43-52

Project references

Oakden, J., King, J., & Allen, W. (2014) *Evaluation of the Sustainable Farming Fund: Executive Summary*, prepared for Ministry for Primary Industries. Wellington, Kinnect Group. http://www.kinnect.co.nz/some-of-our-recent-reports/

Oakden, J., King, J., & Allen, W. (2014). *Evaluation of the Sustainable Farming Fund: Main Report*, prepared for Ministry for Primary Industries. Wellington, Kinnect Group.

Allen, W., King, J., & Oakden, J. (2014). *Three case studies: companion document to the Evaluation of the Sustainable Farming Fund*, prepared for Ministry for Primary Industries. Wellington, Kinnect Group.

Nimmo-Bell (2014). *"Soft" Measures Supporting Agri-Environmental Policy Implementation – Case Study: Performance of the Sustainable Farming Fund (SFF) in New Zealand.* A report to the Organisation for Economic Cooperation and Development Trade and Agriculture Directorate. Nimmo-Bell: Wellington.

Acknowledgements

I would like to express my gratitude to many people who have shared their knowledge to support my ongoing work on value for investment.

My colleagues in the Kinnect Group – Nan Wehipeihana, Kate McKegg and Judy Oakden – contribute inspiration and intellectual rigor on a daily basis in our shared project work and practice development.

Collaborators and friends too numerous to mention here – key examples being Kataraina Pipi, Dr E. Jane Davidson, and Michelle Moss – contribute their unique expertise and insights through joint projects and over countless cups of coffee. Jean-Pierre De Raad always listens with an open mind and challenges my economic thinking.

This work stands on the shoulders of many academic thought leaders, among whom I count Michael Scriven, George Julnes, Michael Quinn Patton, Jane Davidson, Brian Yates and Michael Drummond as particular influencers.

And finally, I am forever grateful to my PhD supervisors at the University of Melbourne, A/Prof Janet Clinton, Prof John Hattie and Dr Ghislain Arbour, as well as Dr Amy Gullickson and my fellow PhD students.

Any errors, omissions, or things you just plain disagree with, are mine and I welcome your feedback.

I would love to hear from you

Julian King
Director, Julian King & Associates Limited – a member of the Kinnect Group
julian@kinnect.co.nz