Measuring value in the public sector

When allocating funds there needs to be an evaluation process with a focus on results

by Suzanne Schell

The ongoing challenges in the public sector to build accountability into processes, programs, learning and development and improvement initiatives continue. The importance of accountability proliferates through all departments. But the actual implementation of accountability processes is still in initial stages or non-existent in many sectors. As decisions are being made to allocate funds to initiatives there needs to be a process implemented to evaluate them – with a focus on results.

Although the interest in return on investment has increased the understanding and determination of ROI (return on investment) is still an issue that challenges organizations. Some argue that it is not possible to calculate the ROI for any type of improvement initiative or program, while others are proceeding to develop meaningful measures and ROI calculations. Both realize that eventually they will need to show a return on investment or funding may be reduced and the initiative or program may be eliminated. The public service today faces this challenge, not only is there increased emphasis on understanding the efficiency of delivery and implementation, but also a new emphasis on the outcomes of programs.

All types of public sector organizations are using ROI evaluation as a way to meet these challenges. The types of programs suitable for ROI evaluation vary; some appropriate programs include:

- performance improvement programs;
- training and learning programs;
- change initiatives;
- technology implementation/improvements;
- hr programs; and
- organizational development initiatives.

Drivers for increased accountability

While public sector activities are complex and sometimes difficult to determine expenditures and payoffs for programs and initiatives, there is an increasing demand for accountability at every level. While there are many reasons for increased accountability, we have identified six specific drivers that are significantly influencing the public sector's need to measure the ROI of programs, improvement initiatives, training or services.

1. Taxpayer pressure to show how government funds are being used. Public expenditures have increased significantly in Canada over the last several years. Taxpayer concern that government services are not adding enough value is driving the accountability issue.
2. A consistent lack of results or alignment. With many public sector programs, the results have been unclear and sometimes nonexistent, forcing great focus on impact and ROI. There is also a serious lack of alignment as public sector programs fail to link to impact measures in many situations.
3. A new influx of government managers with a business mindset. New government executives are managing agencies the same way as executives in the private sector – they're requiring ROI information on new programs and initiatives. They bring a business mindset and are demanding accountability up to and including ROI.
4. Costs are increasing for many programs and initiatives. New programs and processes are expensive, particularly those involving human resources and technology, which creates increased focus on accountability. Large expenditures are targets for criticism, scrutiny and attention. This demands a higher level of accountability and ROI.
5. Previous evaluation methods for government programs do not answer the questions being asked. Traditional program evaluation methods have left agencies seeking new and effective approaches to answer the questions currently being asked. Even a cost benefit analysis using traditional program evaluation does not always provide enough data needed to provide the complete picture of the impact of a program. In addition, the effects of other influences are often ignored in these types of evaluations. A more comprehensive, balanced, yet credible process is needed.
6. Overall trend of accountability for all types of processes. The public sector is reacting to the trend of increased accountability for all processes, functions, and programs. This persistent trend is a global phenomenon where the focus is on efficiencies, costs and productivity. The monetary contribution of programs must be known, including ROI.

Collectively, these drivers for increased accountability bring a renewed focus on measurement and evaluation in the public sector, including measuring return on investment.

Paradigm shift in public sector programming

There has been a shift in programs being implemented in public sector agencies from an activity-based process to a results-based profile. Previously, the activity-driven paradigm was based on the desire to have an abundance of programs – with many activities consuming all available resources. Even the reporting of results was based on the number of program, hours, participants, costs and content. These indicators are input-focused instead of output-focused. Today, public sector programming is moving to a results-based paradigm. Business needs are now being indentified and processes are being utilized to ensure a linkage to business results in every phase of the program including reporting on the actual contribution of the program. Table 1 provides more detail about the paradigm shift involving eight specific programming phases that are fast becoming a results-based profile.

Table 1: Paradigm Shift in Public Sector Accountability

ACTIVITY BASED		RESULTS BASED
No business need for the program/initiative	→	Program linked to specific needs
No assessment of performance issues	→	Assessment of performance effectiveness
No specific measurable objectives	→	Specific objectives for application and business impact
No effort to prepare program participants to achieve results	→	Results expectations communicated to participants
No effort to prepare the work environment to support program	→	Environment prepared to support program
No efforts to build partnerships with key managers	→	Partnerships established with key managers and clients
No measurement of results or cost benefit analysis	→	Measurement of results or cost benefit analysis (ROI)
Reporting on programs is input focused	→	Reporting on programs is output focused

Table 2:

Level	Measurement Focus
1. Reaction & Planned Action	Measures participant reaction to the program including perceived value and captures planned action.
2. Learning	Measures changes in knowledge and skills. Learning how to use the project, content, materials, system including the confidence to use what was learned.
3. Application & Implementation	Measures implementation, actions, and changes in behavior on the job. Use of project content, materials and system in the work environment.
4. Business Impact	Measures changes in business impact variables. The consequences of the use of project content, materials and system expressed as a business impact measure.
5. Return on Investment	Compares monetary benefits of the impact of the program.

While results-based processes are what is being requested and expected there are issues within the public sector that need to be paid attention to and should not impede implementation of the ROI methodology. Four specific issues are identified here:

1. Absence of revenues and profits. Most government agencies don't generate profits. There is a perception that an ROI value can only be developed when there are profits and revenues. This is far from the truth. The numerator in the ROI formula equation represents net benefits derived from either profits or cost savings. Monetary benefits based on cost savings is the majority in case studies. When productivity is improved, quality is enhanced, rework time is reduced; the result is a cost savings – a direct bottom line contribution.
2. Absence of hard data. There is at times a perception that hard data are not available in government agencies, only intangible soft data. This is not the case. In all government agencies there is output, quality, cost and time – the four major categories of hard data.
3. Government services are essential and, therefore, shouldn't have this level of evaluation. Many government services are essential and must be delivered, regardless of the accountability or contribution. Many critical government support services can be changed very little and, often create the illusion that they should not be evaluated. In reality, many of these programs should be subjected to detailed evaluation, at least for major programs with high investment. The effectiveness of the program can be changed, even if the program itself cannot be altered.
4. Restricted range of options to correct problems. The range of options that are available to the private sector to correct problems within programs including discontinuing the program may not be available in the public sector. On the positive side, many options are often available to improve the program in terms of efficiency, effectiveness and its connection to the desired results.

These four issues are considered impediments to measurement at the ROI level, rather than realistic barriers. They are often myths that need to be dispelled for public sector units to make progress in this important area of measurement.

The Solution – Phillips ROI Methodology

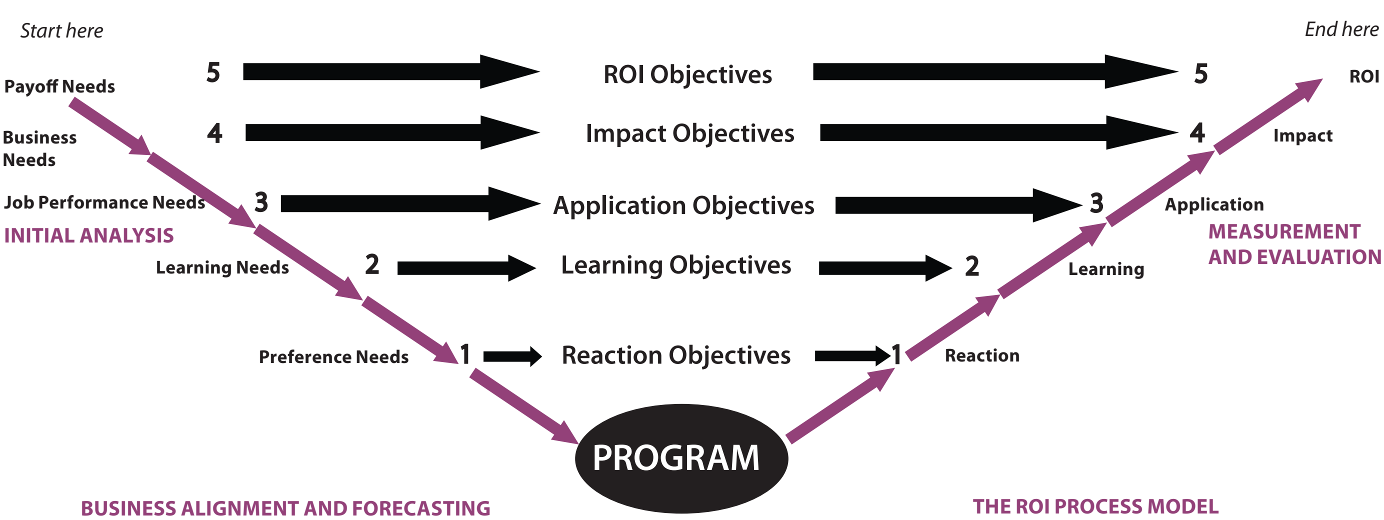
Many public sector organizations are using ROI evaluation to meet the challenge to show outcomes, results and value. The interest in return on investment has increased and progress is being made in understanding and implementing ROI and it is still an issue that challenges even the most sophisticated public sector agencies. There is frustration with ROI evaluation as senior staff and executives believe that most programs are necessary to meet the needs of the organization. Intuitively they feel that there is value in implementing these programs. They logically conclude that programs will pay off in important organizational measures such as productivity, quality improvements, cost reductions and avoidance and time savings. They also believe that programs enhance taxpayer satisfaction, improve image, build teamwork and development better leaders. The frustration comes from the lack of tangible, credible evidence and data of results. Payoffs are assumed and more evidence is needed to build credibility and secure funding for future programs.

The ROI Methodology, developed by Dr. Jack Phillips, represents a comprehensive, balanced approach to measuring the success of any type of program or solution.

The ROI Methodology is a performance-based comprehensive measurement and evaluation process that collects six types of data. The richness of the ROI Methodology is inherent in the types of data monitored during the implementation of a particular project. These data are categorized by levels. Table 2 shows the levels of data and describes their measurement focus.

Along with the five levels of results there is sixth type of data (not a sixth level) developed through this methodology: the intangible benefits – the benefits that are not converted to monetary values but constitute important measures of success.

Figure 1: **The Alignment Process**



This balanced approach to measurement includes a technique to isolate the effects of the program.

To summarize so far, there is an increasing demand for accountability of funds spent in the public sector on programs, projects, improvement initiatives, learning and development etc. and a credible process to measure and evaluate is needed to meet the challenge. As decisions are being made to allocate funds there needs to be a process implemented to evaluate them, with a focus on results. Focusing on results requires that there is an alignment of the investment to the desired organizational outcomes. Answering the question "what do we want the investment to improve?"

The first opportunity to obtain alignment is in the initial analysis. As shown in figure 1 – The Alignment Process, this is the beginning of the complete, sequential model representing the ROI methodology. The first step in this analysis is to examine the potential payoff of solving a problem or taking advantage of a performance improvement opportunity – "is this a problem worth solving?"

The next step is to ensure the project or program is connected to one or more organizational measures. These are the measures that must improve as a reflection of the overall success of the investment. Sometimes the measure is obvious; at other times it is not.

Next, the job performance needs are examined with the question: What must change on the job to influence the organizational measures previously defined? This step is critical because it provides the link to the project solution.

After job performance needs have been determined, the learning needs are examined by asking: What specific skills, knowledge or perceptions must change or improve so that job performance can change? Every solution involves a learning component and this step defines what users must know to make the project successful.

The final step is identifying the structure of the solution. How best can the information be presented to ensure that the needed knowledge will be acquired and job performance will change to solve the organizational problem? This level of analysis involves issues surrounding the scope, timing, structure, method and budget for implementation and delivery.

Figure 2: ROI Methodology

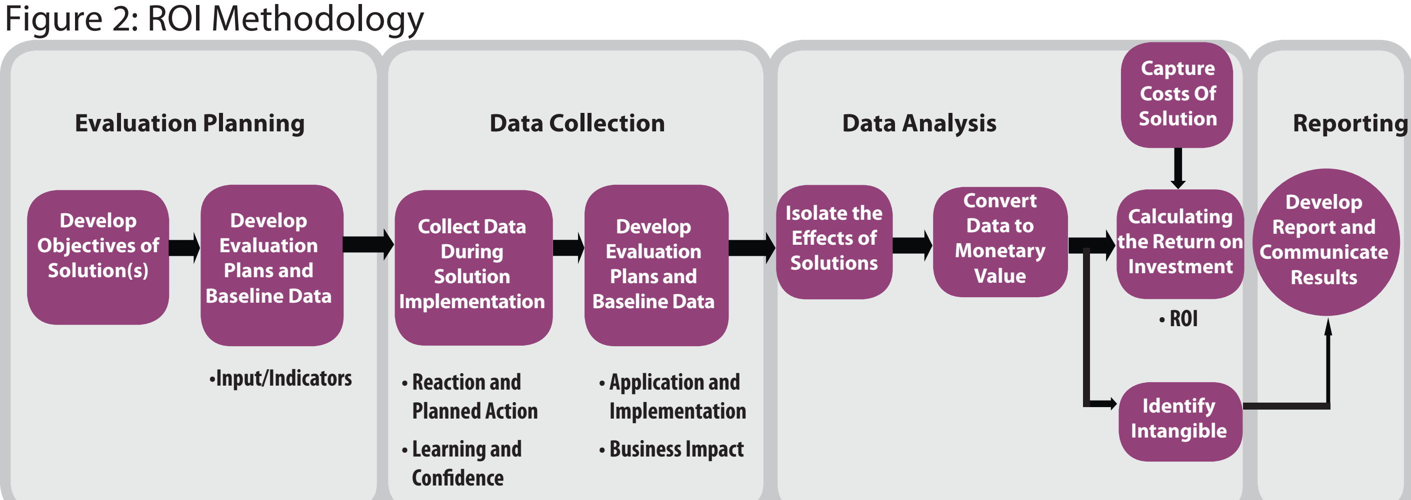


Figure 3: Guiding Principles

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 alternatives for calculations.
5.	Use at least one method to isolate the effects of the program or project.
6.	If no improvement data are available for a population or from a specific source, assume that no improvement has occurred.
7.	Adjust estimates of improvements for the potential error of the estimates.
8.	Avoid use of extreme data items and unsupported claims when calculating ROI calculations.
9.	Use only the first year of annual benefits in the ROI analysis of short-term solutions.
10.	Fully load all costs of the 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

Understanding the need for a project is critical to positioning it for success. The positioning requires the development of clear, specific objectives that are communicated to all stakeholders. Objectives should be developed for each level of needs and define success by answering the question "How will we know the need has been met." Developing detailed objectives with clear measures of success will position the project to achieve its ultimate goal.

The ROI Methodology model

The next challenge is to collect a variety of data along a chain of impact that shows the value of the investment. Figure 2 shows the ROI Methodology, a step-by-step process beginning with objectives and concluding with reporting of data.

To ensure consistency and credibility the methodology must have operating standards. Figure 3 shows the 12 guiding principles that form the basis for the operating standards. The operating standards detail how each step and issue of the process will be handled. The guiding principles provide a much needed conservative approach to the evaluation, therefore building credibility.

Benefits of this process

The evaluation methodology presented here has been used consistently and routinely by many public sector agencies. When the ROI Methodology is implemented into an agency there are many resulting benefits. The success and what it can bring to an organization has been captured over several years:

Aligning with organizational desired outcomes

The ROI Methodology ensures organizational alignment by defining desired business results as an up-front planning process. Clearly defined objectives are required, focusing on results towards measures and impact outcomes through the solution sourcing, delivery and implementation phases.

Validating the value proposition

Most investments are made to deliver value. The definition of value may be unclear or not what the stakeholders desire. Once the value proposition is detailed, the ROI methodology will verify the value proposition agreed to by the appropriate parties.

Improving processes

The ROI methodology is a process improvement tool by design. It collects data to evaluate how things are or are not working. It is a continuous feedback cycle to process improvement.

Justify or enhancing budgets

Some public sector agencies have used the ROI methodology to support proposed budgets. As the methodology shows the monetary value expected or achieved the data can often be leveraged into budget requests. Bringing accountability to a higher level is one of the best ways to secure future funding.

Final thoughts

Resources and funding in the public sector are limited. These funds need to be put to the very best use. To ensure that available funds are put to the best use, they must be invested to add value to the agency. The ROI Methodology™ provides a comprehensive measurement and evaluation process that reveals the value added to the agency.

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