Social Return on Investment-How Agencies Can Value Services and Results and Demonstrate Impact to Funders, the Public and Other Stakeholders

Regions 8 and 10
Community Action Conference

Presented by Frederick Richmond
The Center for Applied Management Practices, Inc.
320 Lamp Post Lane, Camp Hill, PA 17011
(717) 730-3705….frichmond@appliedmgt.com

Holiday Inn Fargo, Fargo, North Dakota
3:15-4:45 PM-May 16, 2017

CAMP

www.appliedmgt.com www.elogicmodel.com

© The Center For Applied Management Practices, Camp Hill, PA , frichmond@appliedmgt.com, www.appliedmgt.com,

Overview of Cost Benefit and ROI for CAAs

All too often, fiscal and programmatic functions are separate. It is not uncommon for a program manager to be given a budget amount with which to manage their program(s) (spend the funds on services) but not know what it actually costs to produce those services or what it costs to produce the outcomes or results.

© The Center For Applied Management Practices, Camp Hill, PA , frichmond@appliedmgt.com, www.appliedmgt.com,

Overview of Cost Benefit and ROI for CAAs

- Human service organizations rarely see themselves as businesses (which they actually are).

- For many years, data generated/reported was primarily for third party reporting (funders) and organizations did not recognize that the same programmatic data could also be used to assess the organization's efficiency and effectiveness.

© The Center For Applied Management Practices, Camp Hill, PA , frichmond@appliedmgt.com, www.appliedmgt.com,

Overview of Cost Benefit and ROI for CAAs

- A grant/contract driven system which “paid” on the delivery of services/outputs rather than on the results/outcomes of those interventions reinforced process over product.

- With reductions in funding, expectations for programmatic and fiscal accountability and the fact that this is a good business practice, agencies must have the tools and skills to demonstrate and communicate what they do, the results achieved, and the value to society.

© The Center For Applied Management Practices, Camp Hill, PA , frichmond@appliedmgt.com, www.appliedmgt.com,

Overview of Cost Benefit and Return-On-Investment (ROI) for CAAs

- Cost-Benefit and ROI analysis in human services can benefit Community Action and other government or nonprofit agencies in support of their mission.

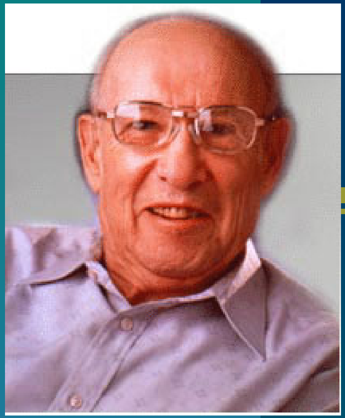
- Cost-Benefit and ROI are standard practices in the for-profit business community. Its emergence in human services offers an additional way for organizations to better tell their story.

Overview of Cost Benefit and Return-On-Investment (ROI) for CAAs

- A requisite for developing Cost-Benefit and ROI scenarios is to identify interventions or services (hereafter referred to as services) and outcomes for all programmatic activities and be able to associate those services with the outcomes they produce (Theory of Change).

- This foundation is a necessary first step. An agency must also establish a unit cost for the service and assign a value to the outcome prior to any ROI analysis.

© The Center For Applied Management Practices, Camp Hill, PA , frichmond@appliedmgt.com, www.appliedmgt.com,



Drucker

- "Social sector organizations have to think through very clearly what results are for their programs and services.
- Is this a responsible organization worthy of my investment?
- The successful social sector organization will hold itself accountable for performance inside the organization.

© The Center For Applied Management Practices, Camp Hill, PA , frichmond@appliedmgt.com, www.appliedmgt.com,

Measurement and Accountability Government Performance and Results Act

Establish performance goals to define the level of performance to be achieved by a program activity. Can establish realistic expectations.

Express such goals in an objective, quantifiable, and measurable form.

Describe the operational processes, skills, technology, and the human capital, information, or other resources required to meet the performance goals.

Establish performance indicators to be used in measuring or assessing the relevant outputs, service levels and outcomes of each program activity.

Provide a basis for comparing the actual program results with the established performance goals.

Describe the means to be used to verify and validate measured values.

Government Performance and Results Act of 1993, (b) Performance Plans and Reports, Section 1115. Performance Plans

© The Center For Applied Management Practices, Camp Hill, PA , frichmond@appliedmgt.com, www.appliedmgt.com,

What Do We Mean By Investment?

- An asset or item that is purchased with the hope that it will generate income or appreciate in the future.
- The building of a factory that will produce goods and the investment one makes by going to college or university are both examples of investments in the economic sense, although that may be changing.
- Reductions in government spending and increasing competition for limited dollars creates an opportunity to demonstrate to elected officials, legislators and the public how human service organizations wisely spends their funds and generate a return to its citizens and their communities.
- Often times in response to this environment, politicians and policy makers, “recast” government spending as “investment.”
- The materials and discussions in this training aim at creating scenarios that can “recast” return-on-investment from a business model to a model having utility in human services.

© The Center For Applied Management Practices, Camp Hill, PA , frichmond@appliedmgt.com, www.appliedmgt.com,

We Are Investing For Results?

- In ROMA, we use the word “results” and the word “outcomes” interchangeably. Simply put, outcomes or results are benefits to individuals, families, organizations, and communities derived from participation in a program or service.
- Family outcomes describe how individuals and families maintain stability, become more self-sufficient, and the supports necessary to ensure well-being.
- Agency outcomes describe the capacity of the organization to use sound management practices in the delivery of programs and services.
- Community outcomes describe the ability of the organization to mobilize public and private resources for programs that support low-income persons, the use of these resources to improve community infrastructure, and the involvement of low-income persons in community organizations and activities.

© The Center For Applied Management Practices, Camp Hill, PA , frichmond@appliedmgt.com, www.appliedmgt.com,

How Do We Know Services are Cost Effective and Provide Value for Funds Invested?

Three main elements of value: Economy, Efficiency and Effectiveness.

- Inputs (Economy) – What goes into providing the service.
- Outputs (Efficiency) – Volume of services divided by cost of services – measure of activity that has taken place. Carter-Richmond Question 5.
- Outcomes (Effectiveness) – The impact of the services on the lives of clients, the difference made. Carter-Richmond Questions 6 and 7.

© The Center For Applied Management Practices, Camp Hill, PA , frichmond@appliedmgt.com, www.appliedmgt.com,

Why Is It Important To Know the Cost of Any Service?

- It might be possible to use less of a service and still deliver the same outcomes by comparing services and their costs.
- It might be possible to use different services that cost less and deliver as good or better outcomes by comparing services and their costs.
- A higher-cost service might deliver the results required more quickly, making the overall cost cheaper.
- Services are not free. Whether provided directly by the organization or by referral and subsidized by grants or government, there is a real cost. Organizations need to know these costs and factor them into their service delivery system.

© The Center For Applied Management Practices, Camp Hill, PA , frichmond@appliedmgt.com, www.appliedmgt.com,

What is The Connection Between Investment and Results?

Worthiness! Is This a Responsible Organization Worthy of My Investment?

- Does My Investment Produce or Yield Worthwhile Results?
- ROI, in this sense, offers a criterion or standard for accountability measurement. If we have in place the necessary ingredients to compute an ROI, then we can have confidence that our accountability efforts are adequate.

© The Center For Applied Management Practices, Camp Hill, PA , frichmond@appliedmgt.com, www.appliedmgt.com,

Current Thinking about ROI

- “The Social Investing Rating Tool would assess not only how nonprofit groups spend their money but also whether their work is making a difference. The goal is to encourage donors to think more like investors -- to consider their charitable donations social investments, complete with risks and responsibilities.
  - http://www.washingtonpost.com/wp-dyn/content/article/2008/11/23/AR2008112302024.html
- The percentage of donations spent on overhead costs is one key criteria -- which experts say fail to take into account the most important factor: whether the charity is doing any good.
- Donors have no good way to distinguish between an organization that does work they're interested in and a great organization that accomplishes results they're interested in.

Source: Washington Post, 11/24/08

© The Center For Applied Management Practices, Camp Hill, PA , frichmond@appliedmgt.com, www.appliedmgt.com,

Return-On-Investment

- The term Return-On-Investment is primarily used in the for-profit business world. It is always expected that a for-profit business will provide a profit or monetary return in excess of its costs. That is the nature of business.

- Nonprofit and governmental organizations are not expected to generate a monetary profit and at times must deliver a necessary service for the common good regardless of the cost relative to the possible value of the outcome.

© The Center For Applied Management Practices, Camp Hill, PA , frichmond@appliedmgt.com, www.appliedmgt.com,

Return-On-Investment

- All services should produce a <u>measurable outcome. All outcomes have a value, however the value is not always monetary.</u>
- ROI is a rate of "dollars per dollar." If the investment and return are measurable in dollars, one has a true, "ROI."
- If the return is given in some other unit measure, i.e., GEDs earned, it is a "benefit per dollar," or a benefit/cost formulation.
- In dealing with human service organizations, we can associate a benefit to some dollar value, but only by expanding our definition from an individual <u>investor</u> to society at large. This concept is sometimes referred to as SROI, "Social Return On Investment."

© The Center For Applied Management Practices, Camp Hill, PA , frichmond@appliedmgt.com, www.appliedmgt.com,

Social Return-On-Investment

- Definitions of social return on investment on the Web:
  - The non-financial outcomes created by a social enterprise, measured in terms of the nonprofit’s mission, e.g. people served, or jobs created, average salaries paid, amount of transfer payments eliminated, etc.

© The Center For Applied Management Practices, Camp Hill, PA , frichmond@appliedmgt.com, www.appliedmgt.com,

Social Return-On-Investment

www.thebalance.com/using-sroi-to-show-your-nonprofit-s-impact-2501977

1 How to Calculate Your Nonprofit's Social Return on Investment (SROI)

All nonprofits are data collectors. Successful organizations know how to turn that information into messages and images that win over supporters. One method they use is SROI

According to The New Economics Foundation, SROI "captures social value by translating outcomes into financial values."

The SROI is similar to ROI but shows the double bottom line: the financial impact AND the social impact of your nonprofit's work.

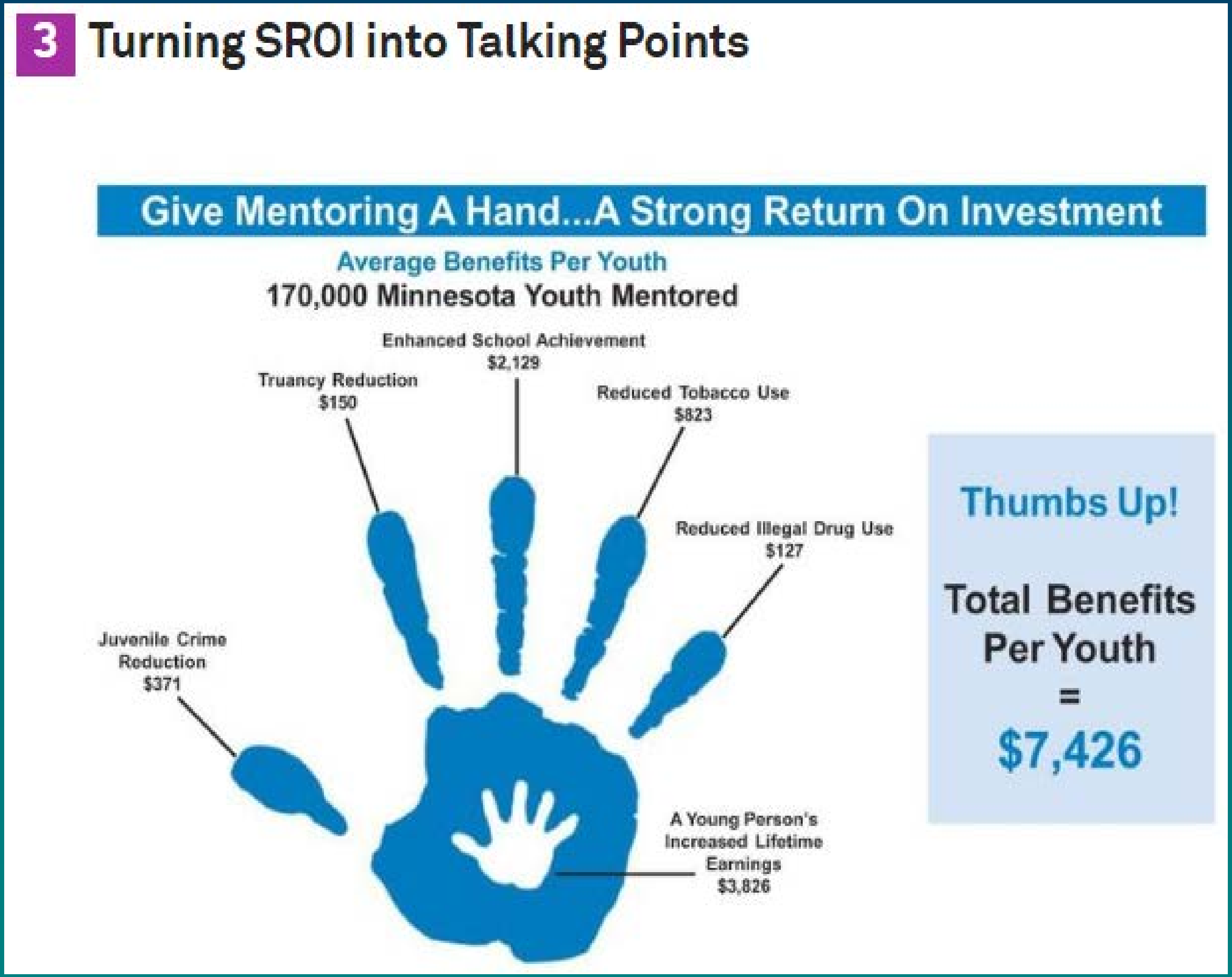
It's that last bit–the social value–that's most important. SROI helps you determine **the cost of what would happen if your nonprofit did not exist.**

Social Return-On-Investment

www.thebalance.com/using-sroi-to-show-your-nonprofit-s-impact-2501977

Social Return-On-Investment

www.thebalance.com/using-sroi-to-show-your-nonprofit-s-impact-2501977



© The Center For Applied Management Practices, Camp Hill, PA , frichmond@appliedmgt.com, www.appliedmgt.com,

Social Return-On-Investment

– Economic Value is created by taking a resource or set of inputs, providing additional inputs or processes that increase the value of those inputs, and thereby generate a product or service that has greater market value at the next level of the value chain. Creating a new program from multiple-funding sources.

– Social Value is created when resources, inputs, processes or policies are combined to generate improvements in the lives of individuals or society as a whole. It is in this arena that most nonprofits justify their existence, and unfortunately it is at this level that one has the most difficulty measuring the true value created. Head Start.

© The Center For Applied Management Practices, Camp Hill, PA , frichmond@appliedmgt.com, www.appliedmgt.com,

Social Return-On-Investment

- Socio-Economic Value builds on the foundation of Economic Value creation by attempting to quantify and incorporate certain elements of social value. An entity creates Socio-Economic Value by making use of resources, inputs, or processes; increasing the value of these inputs, and by then generating cost savings for the public system or environment of which the entity is a part. Weatherization.

© The Center For Applied Management Practices, Camp Hill, PA , frichmond@appliedmgt.com, www.appliedmgt.com,

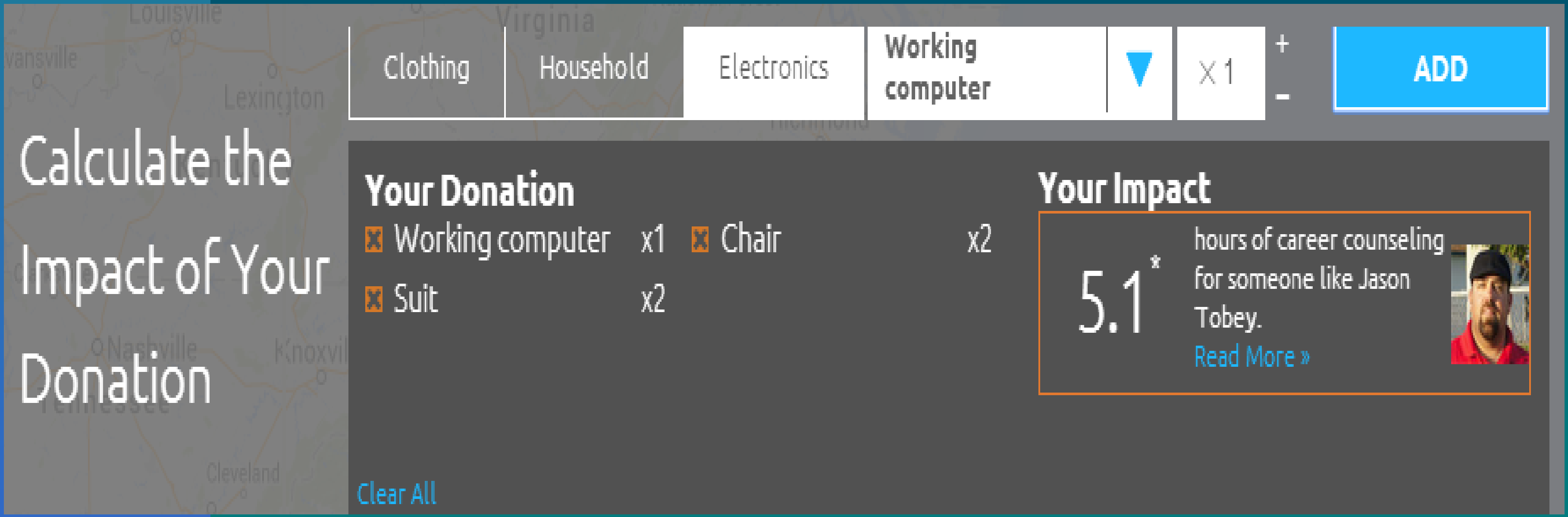
Weatherization-An Example of Socio-Economic Value

- Comparison of dollars expended for Weatherization to the dollars saved as a result of lower energy expenditures. <u>ROI</u>
- Comparison of dollars expended for Weatherization to the reduction of K/WH hours or the # of homes that reduced energy utilization to the dollars expended. <u>Benefit/Cost</u>
- Comparison of dollars expended for Weatherization with the stability of the neighborhoods resulting from repairs to existing properties, possible increased value of the property and increased value of the tax base, and allowing persons to age in place in safe, energy efficient homes rather than placement into the long term care system. <u>SROI</u>

© The Center For Applied Management Practices, Camp Hill, PA , frichmond@appliedmgt.com, www.appliedmgt.com,

Measuring the Impact of Goodwill Donations-Cost Benefit

http://www.goodwill.org/locator/#



© The Center For Applied Management Practices, Camp Hill, PA , frichmond@appliedmgt.com, www.appliedmgt.com,

Start With the Outcome Story
Missouri Tells Judges Cost of Sentences

- When judges sentence convicted criminals, a new and unusual variable is available for them to consider: what a given punishment will cost the State of Missouri.

- "Smart Sentencing." The concept is simple: fill in an offender's conviction code, criminal history and other background, and the program spits out a range of recommended sentences, new statistical information about the likelihood that Missouri criminals with similar profiles (and the sentences they received) might commit more crimes, and the various options' price tags. Cost-benefit.

  Douglas A. Berman, a law professor at The Ohio State University, said: "One of the flaws in the operation of our criminal justice system is not only the failure to be attentive to cost but an arrogance that somehow you can never put a price on justice. Long missing has been a sober realization that even if we get significant benefits from incarceration, that comes at a significant cost." How does this apply to us?

Beyond Charity: Recognizing Return-On-Investment

https://nonprofitroundtable.org/storage/documents/beyondcharity.pdf

© The Center For Applied Management Practices, Camp Hill, PA , frichmond@appliedmgt.com, www.appliedmgt.com,

Beyond Charity: Recognizing Return on Investment – Key Questions

- What is the evidence to suggest that nonprofits create a positive “return on investment”?
- What is known about the impacts and benefits created by area nonprofits when servings as stewards of support from government, business, philanthropy and volunteers?
- What information exists to substantiate the claim that nonprofits help to strengthen communities?

© The Center For Applied Management Practices, Camp Hill, PA , frichmond@appliedmgt.com, www.appliedmgt.com,

Beyond Charity: Recognizing Return-On-Investment

NONPROFIT ROI IN ACTION:

cost savings to society

In many areas, nonprofits deliver results for the people and communities they serve in remarkably fiscally prudent ways. For example, it costs the state of Maryland $25,000 a year for each child who remains in the child welfare system. The nonprofit Adoptions Together works with government to place children with families at an annual cost of just $7,200. It's good for the child, who benefits from having a permanent home and a family for life, and it's more cost-effective for Maryland.

Motivated by a mission.

Investing in nonprofits creates value for all of us. Effective nonprofits find cost-efficient ways to deliver services and do more good work. And because nonprofits embrace a different kind of bottom line – one that focuses on people, not profit – they offer a unique social return on investment.

Saving money by solving and preventing problems.

Struggling schools, homelessness, and hunger. Violence, illiteracy, and substance abuse. Pollution and poverty. Nonprofits are on the front lines of responding to all these critical problems, and many more – both to mitigate their immediate impact, and to find long-term solutions. And by addressing problems before they reach crisis level, nonprofits prevent unnecessary spending – and unnecessary suffering.

Saving money – and generating money – by tapping into potential.

Nonprofit programs that create opportunities for people and places can make a positive economic impact. When a nonprofit job-training program helps lift families out of poverty, the payoff includes dollars that will be earned and spent over many years by productive workers. When nonprofits breathe new life into a blighted neighborhood, the revitalization also contributes to the local economy.

Beyond Charity: Recognizing Return on Investment – Where Value Meets Values

- Cost Savings to Society may be immediate, such as those that accrue when residents use community-based health care rather than expensive emergency rooms, or they may accumulate over time, as when graduates of job training programs leave public assistance or find a better job at which they remain employed for years afterwards.

© The Center For Applied Management Practices, Camp Hill, PA , frichmond@appliedmgt.com, www.appliedmgt.com,

Beyond Charity: Recognizing Return-On-Investment

NONPROFIT ROI IN ACTION:

multiplying impact

A central reason that many nonprofits are so cost-effective is that they are uniquely positioned to tap into the community and leverage a wide range of resources. For example, DC Central Kitchen serves more than 1.2 million meals each year with donated restaurant food that would otherwise go to waste. DC Appleseed uses volunteer lawyers and other professionals to analyze and resolve urgent civic problems. Many other nonprofits are equally strategic and creative, looking for opportunities to combine multiple funding sources, volunteer expertise, and donated goods and services.

The power of being a 501(c)(3).

Many times, investment in a nonprofit triggers additional funding from other sources. Nonprofits are uniquely positioned to tap into multiple funding streams to bring new monies to bear on issues and solutions for the communities they serve. Most nonprofits leverage federal or state dollars earmarked for a specific cause or population with foundation, corporate and individual contributions.

The power of volunteers.

As charitable organizations, nonprofits have the unique ability to harness the power of volunteers of all types, from board members, to professionals who provide skills-based services, to program and administrative volunteers who help deliver services and keep things running behind the scenes. The Washington chapters of Habitat for Humanity and Meals on Wheels are great examples of how nonprofits make the most of their volunteers.

The power of in-kind donations.

From coat drives to hard drives, the ability to accept in-kind donations gives nonprofits another way to capture resources and community support. Donations range from items to help people in need (such as clothing, food, and school supplies) to items for running a nonprofit office, to building materials for capital projects, to donations for auctions and other fundraisers. In-kind donations can amplify impact, allowing nonprofits to stretch their dollars to do the most good.

Beyond Charity: Recognizing Return on Investment – Where Value Meets Values

- Multiplying Impact – Nonprofits leverage public, corporate, philanthropic assets to fulfill their missions. They supplement these funding sources with donated goods and services and by harnessing the power of volunteers.

© The Center For Applied Management Practices, Camp Hill, PA , frichmond@appliedmgt.com, www.appliedmgt.com,

Beyond Charity: Recognizing Return-On-Investment

NONPROFIT ROI IN ACTION:

strengthening community

Nonprofits provide a powerful return on investment by encouraging and engaging the most caring elements of our communities to work together towards positive outcomes. They respond to entrenched and emergent needs with compassion, creativity, and tenacity while bringing people together to work toward sustainable change.

Filling gaps.

Stepping in when other systems are overtaxed or unable to respond – whether by providing health care to low-income families or helping hurricane survivors rebuild their lives – improves the quality of life for everyone. Many times, nonprofits work together to fill gaps, combining their expertise and resources to seize opportunities and find solutions.

Encouraging civic involvement.

Nonprofits break down barriers, tap into individual and shared potential, and create powerful connections between people and community. Advocacy and organizing create a more cohesive community by getting people involved. And this connection to community is a two-way street – many nonprofits empower the youth and adults they serve to become effective advocates and community leaders.

Generating social capital.

Nonprofits allow community members to connect through service, leadership and advocacy. By facilitating and encouraging the impulse to get involved and make a difference, nonprofits strengthen our community at its core. This ability to create "social capital" is a potent characteristic of the nonprofit community.

Beyond Charity: Recognizing Return on Investment – Where Value Meets Values

- Strengthening Community – Nonprofits connect people to each other and to resources, play an essential role in the region's safety net, improve the quality of life, engage people on civic issues, and stimulate reform.

Reginald Carter's Seven Key Questions

- Bio: He was the Director of Planning and Evaluation for the Michigan Department of Social Services from 1974 to 1984, during which time he directed more than 30 program evaluations across a variety of social services with a focus on outcomes. This experience is detailed in The Accountable Agency (1983), re-published in 2006 as The Accountable Agency – How to Evaluate the effectiveness of Public and Private Programs. He published various articles and was a contributor to the Urban Institute study titled, *Developing Client Outcome Monitoring Systems: A Guide for State and Local Services Agencies* (1981).

© The Center For Applied Management Practices, Camp Hill, PA , frichmond@appliedmgt.com, www.appliedmgt.com,

Reginald Carter's Seven Key Questions

1. How many clients are you serving?
2. Who are they?
3. What services do you give them?
4. What does it cost?
5. What does it cost per service delivered?
6. What happens to the clients as a result of the service?
7. What does it cost per outcome?

© The Center For Applied Management Practices, Camp Hill, PA , frichmond@appliedmgt.com, www.appliedmgt.com,

A Sample Benefit-Cost Calculation

1. **How many clients are you serving?**
   - 100
2. **Who are they?**
   - Single unemployed women, ages 21-34 that are seeking employment and have at least one child under the age of 12.
3. **What services do you give them?**
   - A package of job readiness training, job placement and 90 day follow-up services after job placement.
4. **What does it cost?**
   - $100,000 for the total program
5. **What does it cost per service delivered?**
   - $100,000/100 = <u>$1,000/job readiness/training/placement package or $1,000/client.</u>
6. **<u>What happens to the clients as a result of the service?</u>**
   - 10 clients or 10% of the program participants obtained a full time job above minimum wage with employer provided benefits.
7. **What does it cost per <u>outcome</u>?**
   - $100,000/10 clients = <u>$10,000/outcome</u>
   - This means that the successful outcome (a full time job above minimum wage with employer provided benefits) cost $10,000 to produce.

<u>The benefit is #6.</u> 10 clients or 10% of the program participants obtained a full time job above minimum wage with employer provided benefits and the cost to produce the benefit is #7, $10,000/outcome.

Note: The Seven Questions adapted with permission from Reginald Carter.

© The Center For Applied Management Practices, Camp Hill, PA , frichmond@appliedmgt.com, www.appliedmgt.com,

Benefit/Cost Calculation

- When you determine that 10% of persons completing an employment and training program will obtain a full time job above minimum wage with employer provided benefits – this statistic allows you to prepare a <u>benefit-cost calculation</u>.
  - Note that we use the term "scenario." This is not accidental. The end point of the various calculations, whether they are sums, products or quotients, do not always tell the entire story.

© The Center For Applied Management Practices, Camp Hill, PA , frichmond@appliedmgt.com, www.appliedmgt.com,

Benefit/Cost Calculation

- In the benefit/cost analysis conducted using the Carter questions, we are <u>determining</u> what it cost to produce the outcome, not its value. We are <u>not questioning</u> the causality of the relationship between the intervention and the outcome, however, we assume that a relationship exists between the inputs (cost) and the outcomes.

- In a benefit/cost analysis using the seven Carter questions, we are making two calculations: 1. The cost (#4) to produce the service (#3) which is a measure of efficiency, 2. The cost (#7) to produce the benefit or outcome (#6) which is a measure of effectiveness.

© The Center For Applied Management Practices, Camp Hill, PA , frichmond@appliedmgt.com, www.appliedmgt.com,

Benefit/Cost Calculation

- <u>Efficiency</u> and <u>effectiveness</u> are not mutually exclusive. For example, two different companies produced window unit air conditioners; one costs $50 less than the other to produce and sells for $50 less in the store. If only efficiency is measured, the lower priced unit would be more efficient to produce and you would purchase that unit based on the lower price.

© The Center For Applied Management Practices, Camp Hill, PA , frichmond@appliedmgt.com, www.appliedmgt.com,

Benefit/Cost Calculation

- <u>Scenario One:</u> The less expensive air conditioner uses 1500 watts of electricity to produce 12,000 BTU per hour of cooling @95°. The EER = 12,000/1,500 = 8.0
- <u>Scenario Two:</u> The more expensive air conditioner uses 1200 watts of electricity to produce 12,000 BTU per hour of cooling @95°. The EER = 12,000/1200 = 10.0 (Draws less power to achieve the same results).
- The <u>initial</u> expenditure for the higher priced unit (the more effective one) would be “recouped” by the “investor” in the form of reduced expenditures for energy yielding a classic return –on-investment, a comparison of dollars to dollars. Questions: At what point do you “recoup” your initial investment and how much longer does it pay off?

© The Center For Applied Management Practices, Camp Hill, PA , frichmond@appliedmgt.com, www.appliedmgt.com,

A Discussion of Costs

- A discussion of costs involves accounting. Consult an accountant. Do not underestimate the cost to produce a service. Cost calculations should include consideration of the following:
  - Salaries and benefits
  - Administrative and support services
  - Value of Donations
  - Client benefits usually not directly provided by the agency

© The Center For Applied Management Practices, Camp Hill, PA , frichmond@appliedmgt.com, www.appliedmgt.com,

Exercise One – Benefit/Cost Analysis

Instructions: Prepare a benefit/cost analysis for a program. Programs can have multiple services and multiple outcomes.

Program Title:

How many clients are you serving?				
Who are they?				
What services do you give them?	Service 1: Service 2:	Service 1: Service 2:	Service 1: Service 2:	Service 1: Service 2:
What does it cost?				
What does it cost per service delivered?				
What happens to the client as a result of the service?	Outcome 1: Outcome 2:	Outcome 1: Outcome 2:	Outcome 1: Outcome 2:	Outcome 1: Outcome 2:
What does it cost per outcome?	Outcome 1: Outcome 2:	Outcome 1: Outcome 2:	Outcome 1: Outcome 2:	Outcome 1: Outcome 2:

© The Center For Applied Management Practices, Camp Hill, PA , frichmond@appliedmgt.com, www.appliedmgt.com,

Moving on to ROI

- If we talk about Return-On-Investment (ROI), we must also talk about the investor, and the investor wants something back.
- Funders who sometimes think of themselves as “investors” in human services, might want to see a “return” on their grants, contracts or donations. The Carter-Richmond Methodology is a way to demonstrate this return-on-investment approach.
- But first, we need to identify the investor and what they are expecting in return.

© The Center For Applied Management Practices, Camp Hill, PA , frichmond@appliedmgt.com, www.appliedmgt.com,

Exercise Two – Who are the Investors?

- Please identify investors that would likely invest in or fund your programs and services.

- Please identify the possible return-on-their-investment that may be expected by the investors. Please describe these in general terms.

© The Center For Applied Management Practices, Camp Hill, PA , frichmond@appliedmgt.com, www.appliedmgt.com,

Exercise Three – Choose a Program

Choose a program or service operating in your agency. Identify the investors, the outcomes of the program and a ROI scenario.

Investor	Outcome	ROI Scenario

© The Center For Applied Management Practices, Camp Hill, PA , frichmond@appliedmgt.com, www.appliedmgt.com,

The Carter-Richmond Methodology

- The Carter-Richmond Methodology is the term given to the expansion of the original seven Carter questions with the addition of two new questions that can be used to develop Return-On-Investment calculations and scenarios.
- Questions eight and nine were developed to help agencies think about the value of services when a monetary value for an outcome can be established. If a monetary value cannot be established, calculations would stop with question seven. At this point we have Cost/Benefit determination.

© The Center For Applied Management Practices, Camp Hill, PA , frichmond@appliedmgt.com, www.appliedmgt.com,

The Carter-Richmond Methodology

- 8. What is the value of a successful outcome?
  - Establish a monetary value for each outcome.
- 9. What is the return-on-investment?
  - The return-on-investment should be thought of as the value of the outcome compared to the cost of the outcome; a comparison of Question Eight with Question Seven:

$$\text{ROI} = \frac{\text{Value of Outcome (Question 8)}}{\text{Cost of Outcome (Question 7)}}$$

The above calculation is for a single person or unit but can be expanded for an entire program as demonstrated below:

$$\text{ROI} = \frac{\text{Value of Outcome x \# participants achieving outcome}}{\text{Cost of Outcome x \# participants achieving outcome}}$$

© The Center For Applied Management Practices, Camp Hill, PA , frichmond@appliedmgt.com, www.appliedmgt.com,

The Carter-Richmond Methodology

- The most difficult task is <u>identifying a value(s)</u> for the achieved outcome, question eight. The assumptions of valuation and its documentation must be appropriate, accurate and accountable for the return-on investment scenario to be credible.
- It is important that agencies think and discuss in both <u>monetary and non-monetary terms</u> the value of their services and the achievement of results to their funders.

© The Center For Applied Management Practices, Camp Hill, PA , frichmond@appliedmgt.com, www.appliedmgt.com,

An Example of ROI Using the Carter-Richmond Methodology ™

1. **How many clients are you serving?** 100
2. **Who are they?** Single unemployed women ages 21-34 who are seeking employment and have at least one child under the age of 12.
3. **What services do you give them?** A package of job readiness training, job placement and 90 day follow-up services after job placement.
4. **What does it cost?** $100,000

© The Center For Applied Management Practices, Camp Hill, PA , frichmond@appliedmgt.com, www.appliedmgt.com,

An Example of ROI Using the Carter-Richmond Methodology ™

5. **What does it cost per service delivered?**
   $100,000/100 = <u>$1,000/job readiness training placement package per client</u>

6. **What happens to the clients as a result of the service?** 10 clients of 10% of the program participants obtain a full time job above minimum wage with employer provided benefits.

7. **What does it cost per outcome?** $100,000/10 clients = <u>$</u>10,000/outcome. The outcome is a full time job above minimum wage with employer provided benefits.

© The Center For Applied Management Practices, Camp Hill, PA , frichmond@appliedmgt.com, www.appliedmgt.com,

An Example of ROI Using the Carter-Richmond Methodology™

8. **What is the value of a successful outcome?** The value of the outcome is income from employment ($14,137), benefits from employer ($3,000), EITC ($2,000), payment of taxes ($200), reduction or elimination of some welfare or other subsidized benefits ($5,000) for a total of $24,337 per year.

9. **What is the return-on-investment?**

$$\text{ROI Individual} = \frac{\text{Value of Outcome } \$24{,}337}{\text{Cost of Outcome } \$10{,}000}$$

or a 243% return

© The Center For Applied Management Practices, Camp Hill, PA , frichmond@appliedmgt.com, www.appliedmgt.com,

An Example of ROI Using the Carter-Richmond Methodology™

This is actually the same return rate for the program,

ROI Program:

Value of Outcomes ($24,337) x (10) participants=$243,370

Cost of Outcomes ($10,000) x (10) participants =$100,000

The cost of the program at $100,000 returned $243,370 in benefits.

© The Center For Applied Management Practices, Camp Hill, PA , frichmond@appliedmgt.com, www.appliedmgt.com,

Sample Outcome Scale – ROI Incorporating the Seven Key Questions and the Carter-Richmond Methodology

Scenario: One hundred clients (100) were enrolled in a CAA case-managed Family Self-Sufficiency Program. The CAA provided employment services within the agency and made referrals to other community-based organizations where they had formal agreements. Using an outcome scale and matrix, the clients were assessed after one year of enrollment.

The total cost to operate the program including salaries, direct and indirect costs, and referral services is $600,000. The annual unit cost of providing the program ($600,000/100) for each family is $6,000.

Self-	Outcome Scale – Employment	# & % of	Gross ROI

© The Center For Applied Management Practices, Camp Hill, PA , frichmond@appliedmgt.com, www.appliedmgt.com,

Sample Outcome Scale – ROI – Values

Benchmark	Salary & Employee Benefits	Subsidized Benefits
Thriving + 32,000 - 18,000 **$50,000**	Annual salary of $24,900; benefit package worth $5,000; payment of $1,000 in federal, state, and local taxes, an Earned Income Tax Credit (EITC) of $1,100 **+ $32,000**	Avoidance of TANF, Food Stamps, Medical Assistance, and subsidized child care valued at $18,000. **+ $18,000**
Safe + 25,400 - 16,000 **$41,400**	Annual salary of $21,000, benefit package worth $3,500, payment of $400 in federal, state, and local taxes, an Earned Income Tax Credit (EITC) of $500 **+ $25,400**	Avoidance of TANF, Food Stamps, Medical Assistance, and subsidized child care valued at $16,000. **+$16,000**
Stable + 10,912 - 6,093 **$ 4,819**	Annual salary of $10,712 for a family of three, payment of $200 in federal, state, and local taxes **+ $10,912**	Receipt of reduced Food Stamps, Medical Assistance, and subsidized child care valued at $6,093 which is deducted from the annual wage and taxes. **($6,093**)
Vulnerable + 6,600 - 9,125 **- $2,525**	Part-time salary of $6,500, payment of $100 in federal, state, and local taxes **+ $6,600**	Receipt of reduced Food Stamps, Medical Assistance, and subsidized child care valued at $9,12 **($9,125)**
In-Crisis **- $20,000**		Receipt of TANF, Food Stamps, Medical Assistance, and subsidized child care valued at $20,000. **($20,000)**

Analysis and Summary

Overall the <u>$600,000 cost</u> of providing the program returned <u>$751,790 in benefits.</u>

<u>Total Value of all the Outcomes – Q8 $751,790</u>
Cost of Outcomes (Program Cost) – Q7 $600,000

or

<u>1.25</u> or a return-on-investment of a little over 25%.
1.00

© The Center For Applied Management Practices, Camp Hill, PA , frichmond@appliedmgt.com, www.appliedmgt.com,

Types of ROI Models

- Cost Savings and Cost Avoidance
  - The ROI can demonstrate a cost savings resulting from the service.
- Revenue/Income Generating/Gains
  - The ROI can demonstrate that the intervention resulted in increasing income or revenues.

© The Center For Applied Management Practices, Camp Hill, PA , frichmond@appliedmgt.com, www.appliedmgt.com,

ROI Case Study
Valuation – Cost Savings/Cost Avoidance

Return-On-Investment for Asthma Management Program

Coatesville Family Center

Chester County, PA

© The Center For Applied Management Practices, Camp Hill, PA , frichmond@appliedmgt.com, www.appliedmgt.com,

ROI Case Study
Valuation – Cost Savings/Cost Avoidance

- Emergency room visits were reduced from 5 to 2 for an annual cost savings of $1,350 per child, per year.
- Crisis physician office visits were reduced from 5 to 2 for an annual cost savings of $114 per child, per year.
- Annual savings per child resulting from a shift in crisis care to preventive care is $1,464.

© The Center For Applied Management Practices, Camp Hill, PA , frichmond@appliedmgt.com, www.appliedmgt.com,

ROI Case Study
Valuation – Cost Savings/Cost Avoidance

- The cost of the Family Center Asthma Management Program is $252 per child annually. This generates a savings of $1,464 in crisis care costs per child; or a net savings of $1,212 per child annually.
- Gross savings in physician and hospital costs = $83,448.
- Net savings, physician and hospital costs minus nursing costs = $69,084.

© The Center For Applied Management Practices, Camp Hill, PA , frichmond@appliedmgt.com, www.appliedmgt.com,

ROI Case Study
Valuation – Cost Savings/Cost Avoidance

Question 7: Cost of outcome = $252

Nursing preventive care/training provided to the asthmatic child and family.

Question 8: Value of outcome = $1,464

Per child annual savings in reduced use of emergency room and physician visits.

Question 9: $\dfrac{\textbf{Value of Outcome}}{\textbf{Cost of Outcome}} = \dfrac{\$1,464}{\$\ 252}$

Every $1 spent on preventive asthma care management results in saving $5.80 in crisis/emergency services or a 580% return

© The Center For Applied Management Practices, Camp Hill, PA , frichmond@appliedmgt.com, www.appliedmgt.com,

ROI Case Study
Valuation – Cost Savings/Cost Avoidance

Other ROI to consider. What is the value of ?

- Reduction in school absenteeism
- Ability to do homework
- Increased likelihood of child not repeating grade
- Mother returned to work force
- Improved physical and mental well-being of child
- Improved physical and mental well-being of family

© The Center For Applied Management Practices, Camp Hill, PA , frichmond@appliedmgt.com, www.appliedmgt.com,

ROI Case Study Case Management

FACES – Case Management Project

CAA Self-Sufficiency and ROI

© The Center For Applied Management Practices, Camp Hill, PA , frichmond@appliedmgt.com, www.appliedmgt.com,

What is the Return-on-Investment of a Case-Managed Family Self-Sufficiency Program?

Direct and indirect expenditures or costs of a case-management program (services, interventions, or investments).

- $$$ Case-management
- $$$ Job Training and Education
- $$$ Food Stamps
- $$$ Emergency Services
- $$$ Medical Assistance
- $$$ Cash Assistance
- $$$ Child Care
- $$$ Transportation

© The Center For Applied Management Practices, Camp Hill, PA , frichmond@appliedmgt.com, www.appliedmgt.com,

What is the Return-on-Investment of a Case-Managed Family Self-Sufficiency Program?

Compared to the value of the return measured by results or outcomes.

- $$$ realized from income from employment
- $$$ realized from payment of taxes
- $$$ realized from reduction or elimination of Food Stamps
- $$$ realized from reduction or elimination of Emergency Services
- $$$ realized from reduction or elimination of Cash Assistance

© The Center For Applied Management Practices, Camp Hill, PA , frichmond@appliedmgt.com, www.appliedmgt.com,

The Cliff Effect for Sample Programs Eligibility and Value of Subsidized Benefit

% of Poverty	**Table 4** **FY 2016 Programs**	**Estimated Monthly Benefit Family Size (3)**
200-400%	Children’s Health Insurance Program-Subsidized-Varies by State	
200%	Weatherization	
185-250%	Maternal and Child Health-Varies by State	
185%	National School Breakfast/Lunch Program/Reduced Price Meals	
170%	Public Housing	500
200%	Children’s Health Insurance Program (CHIP)-Free-Varies by State	
185%	WIC (Women Infants and Children)	100
150%	Energy Assistance	25
130%	National School Breakfast/Lunch Program/Free Meals	100
130%	Supplemental Nutrition Assistance Program (Food Stamps)	200
130%	TANF-Varies by State	200
125%	Community Services Block Grant (CSBG) CAAs	100
100-130%	Head Start-Up to 10% above 100% for Higher Income or Emergencies	600
50-150%	Medicaid-Varies by State-Varies by Income, Age and Disability	1,500
0-300%	Subsidized child care varies by state and duration	400
100%	Working 52 weeks a year for 37.5 hours a week-$10.34-100% Poverty	Month-$3,325-HS
78%	Florida Minimum Wage-$8.05/hour	Month-$3,125-CC

The Importance of ROI for Human Services

- Applies similar standards of accountability used in the for-profit sector, to public and private human services.
- Helps public and private human services demonstrate results in a competitive funding environment.
- Demonstrates that human services can generate a measurable short and long-term positive impact for the client, agency and community.
- Can demonstrate that a <u>modest</u> success can generate a positive return.
- Helps establish realistic expectations for numbers of successful outcomes in client-level programs.

© The Center For Applied Management Practices, Camp Hill, PA , frichmond@appliedmgt.com, www.appliedmgt.com,

Cautions for Using ROI*

- Harder-to-serve populations may have lower ROI than easier-to-serve populations.
- Non-financial factors may outweigh the economic value and ROI for some expenditures.
- Community data sources and quality vary, making ROI hard to compare between communities. Pre- and Post-test comparisons may be impossible because of lack of data.
- ROI is an approximation tool. To remain credible, use conservative measures; stick to things you can defend.

© The Center For Applied Management Practices, Camp Hill, PA , frichmond@appliedmgt.com, www.appliedmgt.com,

The Principles of SROI

1. **Involve stakeholders**
   Understand the way in which the organization creates change through a dialogue with stakeholders.
2. **Understand what changes**
   Acknowledge and articulate all the values, objectives and stakeholders of the organization before agreeing which aspects of the organization are to be included in the scope; and determine what must be included in the account in order that stakeholders can make reasonable decisions.
3. **Value the things that matter**
   Use financial proxies for indicators in order to include the values of those excluded from markets in same terms as used in markets.

© The Center For Applied Management Practices, Camp Hill, PA , frichmond@appliedmgt.com, www.appliedmgt.com,

The Principles of SROI

4. **Only include what is material**
   Articulate clearly how activities create change and evaluate this through the evidence gathered
5. **Do not over-claim**
   Make comparisons of performance and impact using appropriate benchmarks, targets and external standards.
6. **Be transparent**
   Demonstrate the basis on which the findings may be considered accurate and honest; and showing that they will be reported to and discussed with stakeholders
7. **Verify the result**
   Ensure appropriate independent verification of the account. Source: http://www.thesroinetwork.org/what-is-sroi-uk

© The Center For Applied Management Practices, Camp Hill, PA , frichmond@appliedmgt.com, www.appliedmgt.com,

What Can We Do As A Network?

1. Identify services and expected outcomes common to all CAAs. Use the state CSBG plans and/or NPI reports.
2. Establish a methodology for determining unit costs for services and establish average costs across the network.
3. Where reasonable, identify a monetary value for a specific outcome associated with a service. Use this data to calculate ROI.
4. If the outcome has a non-monetary value, use the unit cost to calculate a benefit-cost or SROI.

© The Center For Applied Management Practices, Camp Hill, PA , frichmond@appliedmgt.com, www.appliedmgt.com,