Incorporating value creation in a theory of change

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We are recipients of the 2022 UK Evaluation Society, Ipsos funded 'Innovation in Methodologies' prize for our work on theories of value creation. This article will share some reflections: What is a theory of value creation? How did the innovation come about? Why might it be useful? How can we develop and use theories of value creation in our work? What are the challenges, limitations, and lessons learnt? .

What is a theory of value creation?

A theory of value creation might act as an extension to a theory of change. In a nutshell, it describes the value proposition of a policy, programme or project. Whereas a theory of change describes how we suppose the activities of an intervention bring about impact, a theory of value creation views interventions as "transformational processes that convert resources (funding, expertise, relationships, etc.) into significant social value" (King, 2021). In practice, a theory of value creation may describe what kinds of value the intervention creates, for whom, and through what mechanisms.

For example, imagine a (hypothetical) scientific research fund aimed at supporting the development and testing of innovative technologies to capture and sequester atmospheric carbon dioxide (CO_2) to combat climate change. A theory of change might posit that the research fund will lead to new discoveries, adding to the body of knowledge about effective carbon sequestration approaches, in turn contributing to more rapid and widespread adoption of effective approaches, thereby enhancing global efforts to reduce CO_2 concentrations.

A theory of value creation could contribute additional layers of theory by making explicit the kinds of value the intervention creates. For example, this could include the value of learning from successful projects (specifically, new knowledge that would not have been generated or would have taken longer to generate without the research fund), and the value of learning from failures (adding to the evidence base about approaches not to invest in). It could also include the environmental and social value associated with the systemic adoption of this new knowledge, leading to sequestration of sufficient quantities of carbon to exceed the value of resources invested in the research fund.

The theory of value creation might also address the question of *value to whom*, noting that carbon sequestration has an overarching value to the global community (by reducing CO_2 concentrations everywhere) as well as particular value to low-income countries, women, young people, and others who are disproportionately susceptible to negative impacts of climate change.

The theory of value creation might also propose mechanisms through which the research fund is assumed or expected to create more value than it consumes. In general, value creation or value multiplication mechanisms include possibilities such as accumulating, leveraging, attracting, protecting, sustaining, or sharing things that are valuable to people (King, 2021). One of the ways the research fund could create value is by acting like a magnet, attracting leading researchers and cohering their efforts toward a significant social problem, with the expectation that this will accelerate and expand the creation of knowledge and the value of carbon sequestered compared to the progress that might have been made without the research fund. Maximising value creation from the fund will hinge on attracting and selecting the right grant applications (e.g. with attention to relevance, additionality and risk appetite), adequate grant size and duration, generation of cost-effective and scalable new discoveries, sharing and adoption of the knowledge, and the sequestration of enough CO_2 to justify the investment in the fund.

The backstory – how did the innovation come about?

The notion of a theory of value creation was born over coffee in Wellington, where Julian and his Kinnect Group colleagues were seeking to more clearly articulate how programmes work to transform resources into social value.[2] Drawing on lessons from evaluation projects in New Zealand and Australia, Julian subsequently published an article (King, 2021), and started discussing with Oxford Policy Management (OPM) colleagues how they might build theories of value creation into their work. In particular, they thought it might help to solve a problem they sometimes encountered in designing value for money (VfM) frameworks.

OPM's approach to assessing value for money (King & OPM, 2018),[3] based on a system developed through Julian's doctoral research (King, 2017; 2019),[4] combines economic and evaluative thinking with the aim of strengthening mixed methods VfM assessment. The approach involves explicit evaluative reasoning, guided by rubrics. VfM rubrics define criteria (aspects of VfM) and standards (levels of VfM) aligned with a programme's theory of change. These rubrics are context-specific and co-created with stakeholders. They articulate a shared and agreed understanding about how evaluative judgements should be made from the evidence. Once defined, the criteria and standards help to delineate the scope of the VfM assessment. They inform decisions about what evidence is needed and what mix of methods should be employed to gather and analyse the evidence. Subsequently, the evidence is interpreted through the lens of the agreed criteria and standards to evaluate whether the programme represents good use of resources.

OPM's approach to assessing VfM is guided by a series of eight steps, as summarised in Figure 1. You may recognise this approach as a way of implementing the general logic of evaluation (Scriven, 1980; 1991; 2012; Fournier, 1995) using rubrics (Davidson, 2005; King, McKegg, Oakden, & Wehipeihana, Figure 1: A stepped approach to evaluative reasoning, including a theory of value creation (King, Hurrell, & Namukasa, 2022; adapted from King, 2019)

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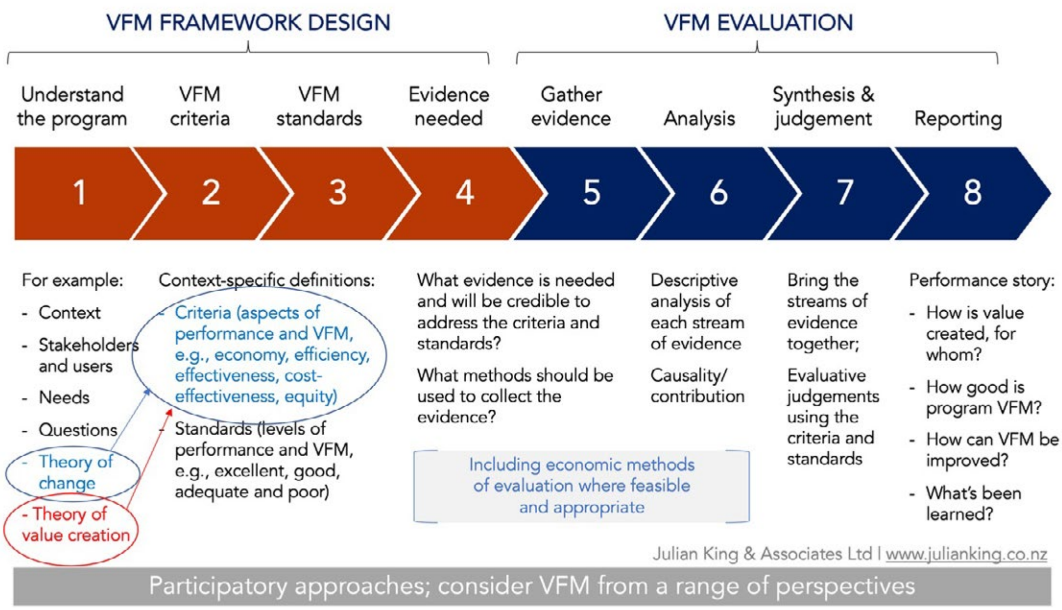

Figure 1: A stepped approach to evaluative reasoning, including a theory of value creation (King, Hurrell, & Namukasa, 2022; adapted from King, 2019)

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[2] www.kinnect.co.nz

[3] www.opml.co.uk/files/Publications/opm-approach-assessing-value-for-money.pdf?noredirect=1

[4] www.julianking.co.nz/vfi/

However, there were sometimes challenges in applying this approach. VfM framework design involves developing rubrics aligned with a programme's theory of change. It sometimes took a leap of logic to develop programme-specific definitions of good VfM directly from a theory of change. This challenge stems from the fact that a theory of change conceptualises programmes as vehicles for making a difference, whereas VfM is ultimately about how a programme creates value.

Adding a theory of value creation (added in red text to Figure 1) was conceived as a way to make assumptions about value creation more explicit, bridging the gap between programme theory and VfM criteria development.

How is a theory of value creation useful?

In short, if we can define a programme's value proposition, then we may be better placed to evaluate it.

At the UK Evaluation Society Conference in May 2022, Julian, Esther and Alex shared examples of MUVA, a Mozambican NGO recently established at the conclusion of an FCDO-funded female economic empowerment programme,[5] and African Risk Capacity (ARC), a specialised agency of the African Union established to help African governments respond to extreme weather events and natural disasters.[6]

In these projects, incorporating value creation in the theory of change helped OPM teams to shift their focus from change to value. OPM found that defining the value propositions of these investments added clarity to their VfM assessments. In the design phase of an evaluation, developing a theory of value creation prompted evaluators and stakeholders to explicitly consider what kinds of value may be created, value to whom, and how. These considerations aided clarity and made assumptions more transparent.

For example, in a formative evaluation of the African Risk Capacity (OPM, 2022), the evaluation team developed and tested ARC's theory of value creation with stakeholders, informed by past cost-benefit analyses, past evaluations, literature, formal theory and explicit assumptions. The theory of value creation (Figure 2) focused on ARC's support to drought response. It articulated the types of value created in this context, the broad impacts required for ARC to create value, and critical factors that underpin ARC's ability to provide value. These considerations informed the basis of VfM criteria – ARC-specific definitions of economy, efficiency, effectiveness, and equity targeting critical, observable factors that affect ARC's potential VfM.[7]

As the ARC example illustrates, articulating a shared understanding of a programme's value proposition can help with co-developing contextually appropriate VfM criteria and standards articulating what good VfM looks like. This in turn aids in the selection of an appropriate mix of methods (qualitative, quantitative, and/or economic) to gather and analyse credible evidence. Having an explicit theory of value creation provides additional guidance for making valid VfM evaluative judgements that get to the heart of what it means for a programme to create value. It can be useful to refine theories of value creation during the course of an evaluation to reflect what is subsequently learnt about how a policy or programme creates value.

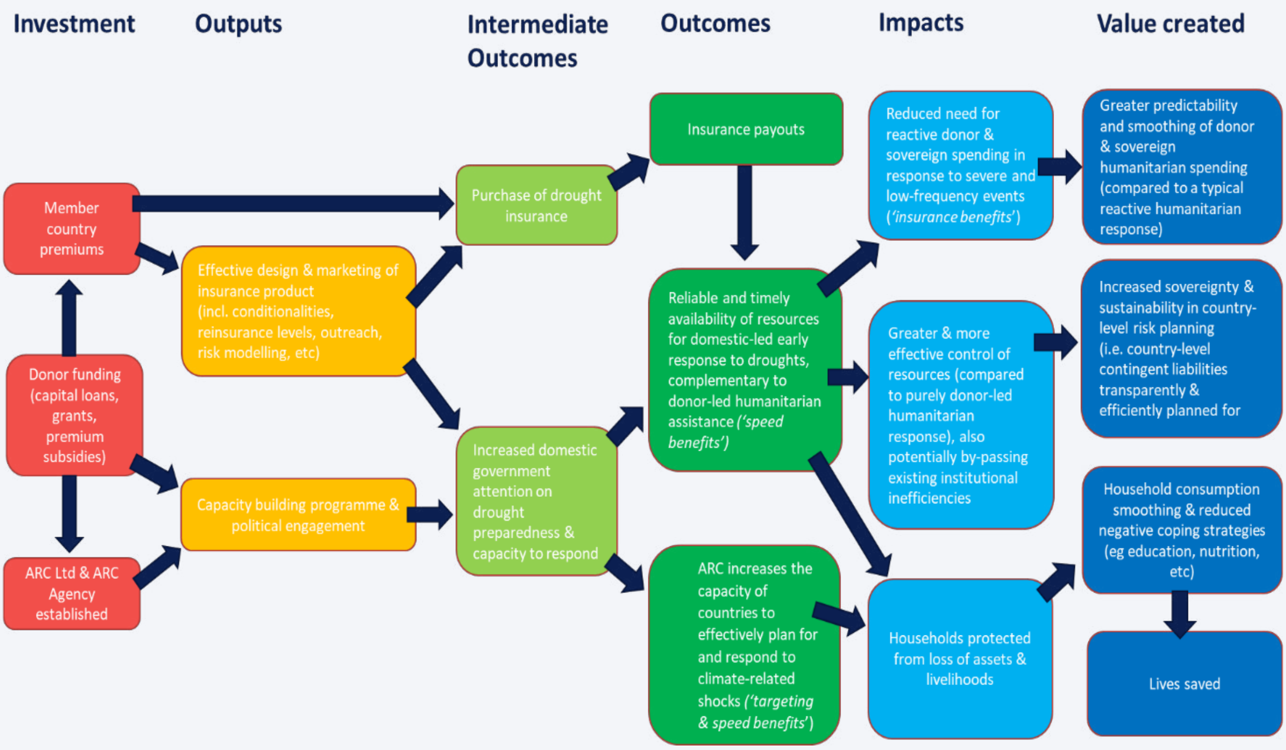

Figure 2: ARC drought insurance – theory of value creation (OPM, 2022).

How can we develop and use theories of value creation in our work?

Incorporating value creation into programme theories is guided by one overarching question: What is the programme's value proposition? This question can be unpacked into sub-questions such as:

- What kinds of resources are invested in the programme? Value invested by whom?
- What kinds of value does, or should the programme create? Value created by whom, for whom?

How is value created? What are the mechanisms by which the programme uses resources efficiently, effectively, equitably, and creates sufficient value to justify the resource use? (There may be more than one mechanism, e.g., there may be multiple mechanisms or chains of mechanisms).

- When is value created? How long does it last?
- Under what conditions is value creation possible?

What are the challenges, limitations, and lessons learnt?

As Julian, Esther and Alex said at the conference, this idea is still fairly nascent and team members learn something each time they use it. Challenges sometimes arise simply because it's a new idea and there's little guidance on how to develop a theory of value creation. For example, in some programmes there seems to be an obvious distinction between impact and value; in other cases, the difference can be more subtle and challenging to describe.

Acknowledgements

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[7] www.opml.co.uk/projects/independent-evaluation-african-risk-capacity