Defining “Value” and “Value for money”

Why define “Value” and “Value for Money”?

Why do we bother with definitions of such everyday terms as ‘value’ and ‘value for money’? I heard one conference speaker say that “everyone knows what ‘value’ is”, and surely, we can all recognise ‘value for money’ at the supermarket when we see it. This question of definitions was high on our agenda as we wrote the Australian Standard on Value Management. “Do we really need to define these terms?”. The answer was a definite “yes”, and in this paper, I will explain why and also explain the reasoning behind the definitions we ended up with.

Value

It may well be true, as the conference speaker claimed, that “everyone knows what value is”, but we have a problem, which is this: everyone seems to have their own understanding of what ‘value’ actually means to them. Here are just a few examples of the term in use:

- “Items on this shelf are of no value”.
- “Value for your most valued this Mothers’ Day.”
- “I really value your opinion.“
- “Where’s the value in that?”
- “That’s of no value to me”.
- "From face value to the bigger picture.”

One former student of a course that I had run in Value Management wrote to me saying that she had checked out the word ‘value’ in Wikipedia and found more than 500 definitions of ‘value’ and its derivatives! It becomes even more complicated when we introduce the phrase ‘value for money’ – but more of that later.

The definitions that we wrote for the Australian Standard were crafted to establish a common language with common meaning. Thus, when we use the word ‘value’ in statements about products, projects or whatever, everyone involved knows exactly what is meant.

It is worth asking the question, "Why does anything have value?" By trawling through many dictionaries and text book definitions, three common themes or ‘factors’ may be seen. For something to have value, it must embody these three factors:

- It fulfils a useful purpose (or purposes).
- It brings benefits.
- It embodies important features or characteristics.

I have been teaching and practising Value Management for many years and have come across absolutely nothing for which we cannot define ‘value’ using these three factors. Absolutely nothing. The formal definition of ‘value’ in the Australian Standard is built around these three factors.

We should note, too, that ‘value’ does not exist independently of human thought – it’s an *attribute* that we, as people, ascribe to things – anything. It’s personal; it’s mainly subjective; and, it might change from person to person, place to place, and, from time to time. We can immediately recognise, therefore, that everyone will be likely to have their own perception of ‘useful purpose’, ‘benefits’ and ‘important features or characteristics of whatever it is we’re looking at – a new hospital; a new school; a new road; a new or existing product or service. It’s critically important to understand this.

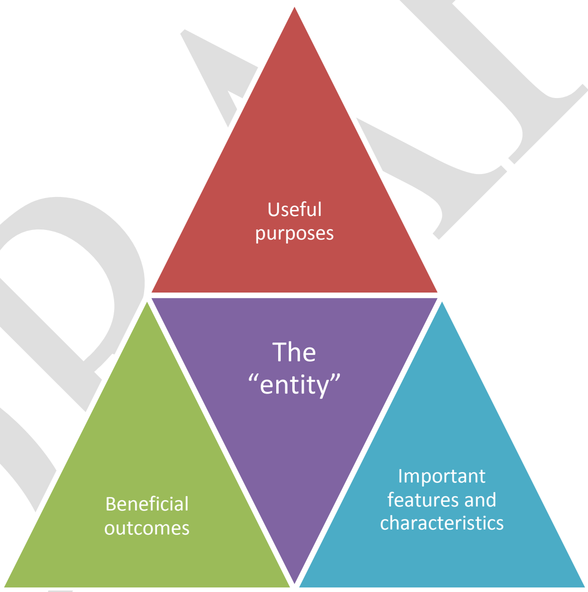
The way in which these three factors work together to determine value may be seen by considering an example such as a suburban commuter-train service. From the point of view of the *passenger*, the useful purpose of the train service is that it takes one from point A to point B. If the train does not do this, then to the *passenger*, it has no value at all. But assuming that it does take the *passenger* from point A to point B, the question of value does not end there. One benefit of fulfilling the useful purpose might be that the service enables the customer to get to work on time: so this is also a factor in why the train service has value. An important feature or characteristic of the service might be frequency, regularity or reliability of the service. Clearly, a more-reliable service is likely to have more value in the eyes of the passenger. We could add other points, too, such as personal safety and comfort. Indeed, if we were to bring together a group of passengers and discuss these factors with them, we would probably produce quite a long list of elements but we would be able to place them all in a *value statement* beneath the headings of: useful purpose, benefits and important features and characteristics.

We could keep the exercise going and consider the value of the train service from the point of view, say, of the Ministry of Finance or a major shopping centre. Again, each would have their own perspectives. So it is with any entity. There will always be *multiple perceptions* of useful purposes, benefits and important characteristics. In Value Management, we have a structured process that enables capture of these multiple-perspectives in the collaborative environment of a workshop in which stakeholders and project-team members work together.

The formal definition of 'value' in the Australian Standard on Value Management captures these three factors as follows:

> *An attribute of an entity determined by the entity's* perceived usefulness, benefits and importance.*
>
> *The term 'entity' is previously defined in the Standard as:
>
> *That product, process, service, system or organization (or part thereof) to which Value Management is applied.*

This concept of 'value' is represented in the following diagram:



Value for Money

So far in this article, we have dealt with the definition of 'value', without reference to 'money'. Recognising the distinction between 'value and 'money' in the phrase 'value for money' is crucial to understanding the Australian Standard definitions.

At one level of thought, 'value for money' needs no further explanation – we know intuitively that if we go shopping at the supermarket and see a product being sold for half its usual price, then *that particular item* represents good value for money. But if we continue shopping, we might find that the cost-saving on that one item has mysteriously been distributed across other items, such that our total shopping bill has not reduced at all. Make no mistake: 'value for money' is a complex business.

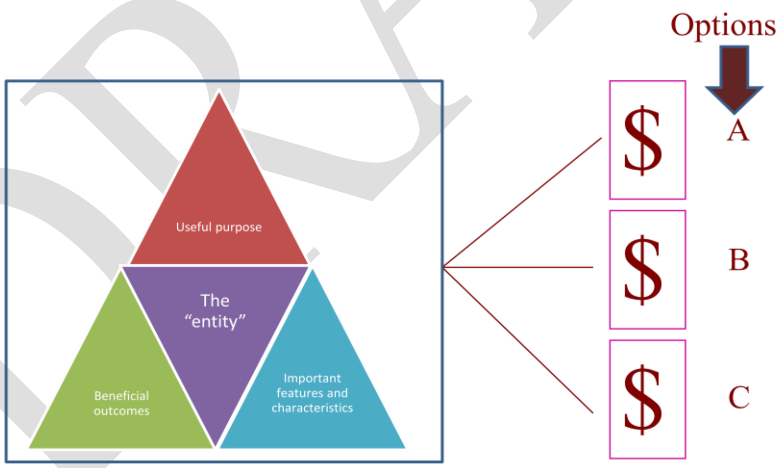
A further consideration is that value for money is always a statement about ***comparisons***. There is no exception to this. So when we say "good value for money", or "poor value for money", we are saying it is "good" or "poor" *compared with something else*. That "something else" could be an option of "doing nothing". For example, in upgrading an existing building, there will be a cost of upgrading, but the cost of "doing nothing" might be even greater in the long term due to deterioration, lack of tenants, etc. So upgrading might deliver better value for money than "doing nothing". There we have our comparison. There is always something to compare with.

So, taking account of the definition of 'value' in terms of the three 'value factors' – useful purposes, benefits and important features or characteristics; the separation of 'value' from 'money'; and, the inherent nature of comparison in expressing 'value for money', the Australian Standard definition for 'value for money' is:

> *A measure used for comparing alternatives based on the relationship between value and total cost.**
>
> **These costs may include those associated with the entity's planning, acquisition, development, operation, staffing, consumables, energy, maintenance and disposal. (Such costs may go beyond those attributed only to the life cycle costs of the entity.)*

In a very real sense, 'value for money' may be seen as a performance measure, just like any other performance measure. "How much 'value' are we getting for our 'money'?" The actual *measure* of comparative performance is typically expressed in ordinal terms such as "good" value for money, "exceptional" value for money, "poor" value for money, "better" value for money, or, the measure that most people desire, "best value for money. All of these measures relate to the *comparison of the extent of value provided for the amount of money expended.*

This is represented in the following diagram which shows the 'total costs' of three options - A, B and C. The comparison of options involves evaluating the extent of value provided by each option (some will provide more, some will provide less) for the total costs involved and then deciding which of the three delivers 'best value for money'. The way in which the evaluation is carried out is covered in other IVMA White Papers.



'Value for money'

<u>The Language of 'Value' and 'Value for money'</u>

Since this article is to do with *definitions* of 'value' and 'value for money', we need to consider further the language that is in common use. The English language allows us to use the word 'value' as a short form (technically an ellipsis) for 'value for money', meaning that the *context* in which the word is expressed will determine meaning. Consider, for example, the following statement: "Our supermarkets offer best value and service to customers." The context here is that "best value" actually means "best value for money" but "for money" is silent (as an ellipsis, or 'short form of 'value for money'). The context clearly shows that the advertiser means 'value for money'. So it is with project documentation.

The phrase ‘value for money’ is commonplace in those countries where English is the first language (I understand that in some countries, completely different words are used to describe ‘value’ and ‘value for money’). Clearly, the phrase ‘value for money’, strongly emphasises the point that ‘value’ and ‘money’ are separate considerations and need to be dealt with separately. Hence, the recommended practice in the Australian Standard to first establish ‘value’ (as defined above), then consider the total costs of various options, and then to determine which of those options delivers best ‘value for money’.

Whilst it is acceptable in the English language to abbreviate (as in the case of the supermarket quoted above), there is far more clarity if, on those occasions we actually mean “value for money” that we say “value for money”.

There is a further abbreviation (or ellipsis) typically involved with this. When we say that we have achieved ‘value for money’, we usually mean ‘good’ value for money but the word ‘good’ remains silent. From time to time, we will say “best” value for money, or, option A provides “better” value for money than option B. But the silent “good” is important to keep in mind.

So there we have it. Why do we bother defining these everyday terms? Because the terms ‘value’ and ‘value for money’ are used in so many different ways with so many potentially different meanings and there are always numerous views about why a particular entity has ‘value’. The Australian Standard on Value Management seeks to provide a common language to minimise the risk of misunderstanding about ‘value’ and ‘value for money’ from products, processes, services, systems or organisations.