

Sacred Cows and the Process of Purposeful Abandonment

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When Should You Consider Cutting a Program?

Theoretically, the answer is easy: you should cut a program when its cost exceeds its value. But. . .

- How do you know whether a program takes away more than it adds to the association?
- How do you determine both the mission-related and financial value a program brings to the association?

Types of Program Evaluations

There are a number of different types of assessments you can perform. These include:

- Process evaluation
 - Understanding how your program really works, and its strengths and weaknesses
- Goal evaluation
 - Measuring how well the predetermined objectives are met
- Outcome evaluation
 - Identifying benefits to members

The assessment we are going to discuss today is an outcome evaluation which looks at program performance from both a mission and financial perspective.

Defining and Measuring Value

Value can be defined as both qualitative (mission-based) and quantitative (margin-based).

- Ideally, all nonprofit programs should be mission-based, whether they are self-supporting or underwritten by dues and other sources of income.
- Programs that are only peripherally linked to an association's mission should be contributing income that supports other, more closely aligned programs.

Defining and Measuring Value

To measure value, you must be able to assign performance metrics to the program under evaluation. A metric is simply a standard of measurement. Examples of program metrics may include:

- Member participation (customers served)
- Behavioral outcomes (impact of program on lives of customers)
- Income generated (calculated net margin)

Defining and Measuring Value

While we normally think of metrics are measuring only tangible results, derived metrics can also be assigned to measure the intangible. For example:

- A metric for a public relations program to reinforce the importance of diversity in the profession may be to increase the number of law firm partners who are from traditionally underrepresented minority groups.
- The presumption here is that the more effective the public relations program – the more minority lawyers will be promoted to partner. Although we cannot prove that there is a link between the program and firm behavior, we can logically presume there is.

Defining and Measuring Value

Other metrics related to an association's mission may include:

- Number of strategic goals supported by the program
- Number of members served by the program
- Number of linkages between the program and other programs offered by the association
- How closely a program is linked with the core competencies of the association
- Improved performance of members at work

Calculating Program Costs

Types of Costs

- **Direct (program)** can be traced to the program or event for which they were incurred (e.g., function expenses for an educational event or printing costs for a journal)
- **Indirect (non-program)** costs are not easily identifiable to a specific event or program (e.g., salaries for the switchboard staff, office rent, or corporate dues)
- **Fixed costs** do not vary with output (e.g., rent, property insurance)
- **Variable costs** fluctuate in relationship to another action or event (e.g., health insurance, commissions, freight)
- **Fully loaded costs** indicates that all costs have been accounted for and included.

Calculating Program Costs

Publication Example

- How do you start?
 - Identify all revenue sources
 - Identify all direct and allocate indirect costs

<i>Program Revenues</i>			
Advertising		\$	100,000
Non-Member Subscriptions			50,000
	Total Revenue		150,000
<i>Direct Costs</i>			
Salaries (3 employees)			150,000
Printing			200,000
Postage			300,000
Writer Fees			100,000
	Total Direct Costs		750,000
	Total Net Direct (Cost) Surplus	\$	(600,000)
<i>Indirect Costs</i>			
Production Department			200,000
Other Allocations			100,000
	Total Indirect Cost		300,000
	Total Net (Cost) Surplus	\$	(900,000)

Calculating Program Costs

The true cost of running a program is an important indicator of the financial health of a program, but it is not the only indicator. Other financial indicators might include:

- Diversity in the sources of funding for the program
- Potential to add sources of funding to the program
- Trends in net margin over the past 3 – 5 years

Evaluating Individual Programs

Programs can be individually evaluated based on the metrics agreed upon by leaders and staff by creating a "score card." A simplified version of a program score card for a seminar (without weighting the importance of the metrics) may look like this:

Mission	Rating (1 low – 5 high)	Margin	Rating (1 low – 5 high)
Number of Participants 2006 participants served = 175 (Goal = 500)	2	Net Margin 2006 net margin = (\$1,500) which represents 5% of the expense budget.	2
Number of Returning Participants Return participants from 2005 to 2006 = 95%	5	Diversity of Funding Sources There is only one funding source for this program which is participant fees	2
Number of Strategic Goals the Seminar Supports Supports 3 of 5 strategic goals	3	3 Year Financial Trends This program has gone from a loss of \$10,000 or 50% in 2004 to 5% in 2006	4
Leveragability, i.e. alignment with other programs Seminar feeds participants into 2 other programs.	4		
Total	3.5	Total	2.6

Evaluating Individual Programs

The program rated on the previous page is a 3.5 on a scale to 5 from a mission perspective and a 2.6 on a scale to 5 from a margin perspective. What direction does this give us from a decision-making perspective?

- The primary value of this program is its contribution to achieving the association's mission.
- Although the program is receiving support from other programs or general funds, it has a very positive trend towards self-sufficiency. Therefore:
- This program appears to be worth continuing investment. Goals should be set to achieve self-sufficiency. Strategies should be implemented to achieve these goals, especially in the area of diversifying the funding base.

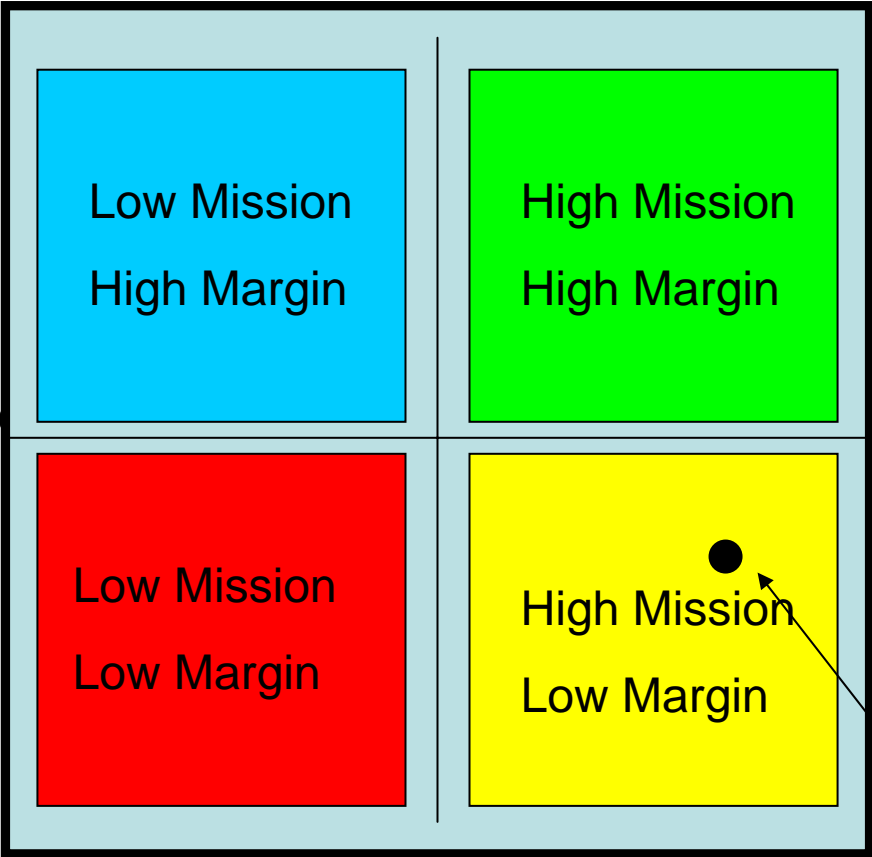
Striking the Right Balance

After evaluating individual programs, it is important to look at where that program falls in relation to other programs. A single program should never be evaluated in isolation.

Striking the Right Balance of Programs

Programs in this quadrant, while not completely disconnected from the association's mission, are not fundamental to it. Yet these programs generate revenue that support other more mission driven programs. Therefore they contribute overall to the association.

Margin



Programs in this quadrant are also closely aligned with and effective in meeting the association's mission, but are fully self-supporting and may even contribute revenue to other programs.

Programs in this quadrant neither closely related to the association's mission nor are they contributors of financial resources.

Programs in this quadrant are closely aligned with and effective in meeting the association's mission, but are not self-supporting.

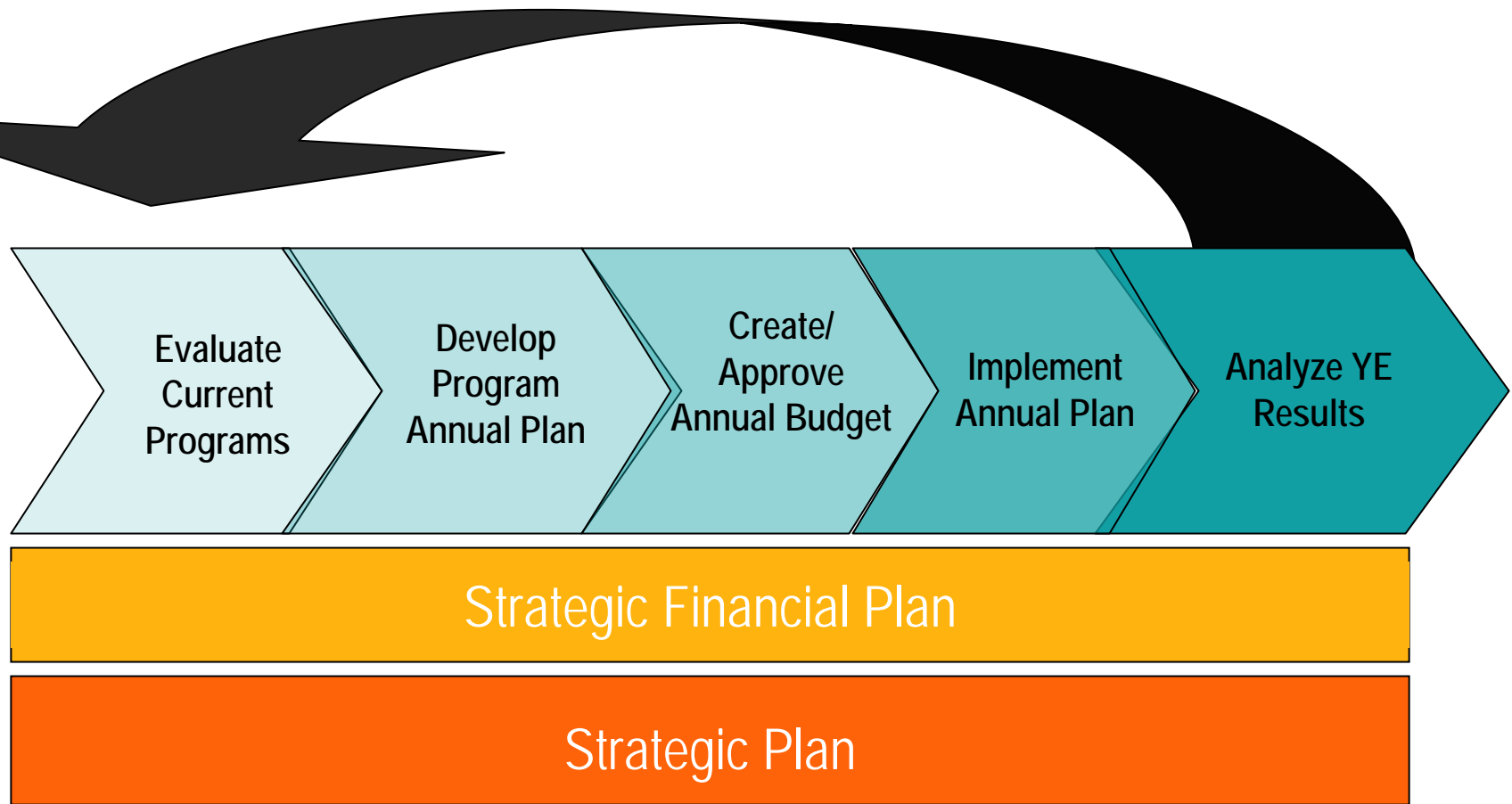
This is where the seminar from page 13 would fall.

Taking Action

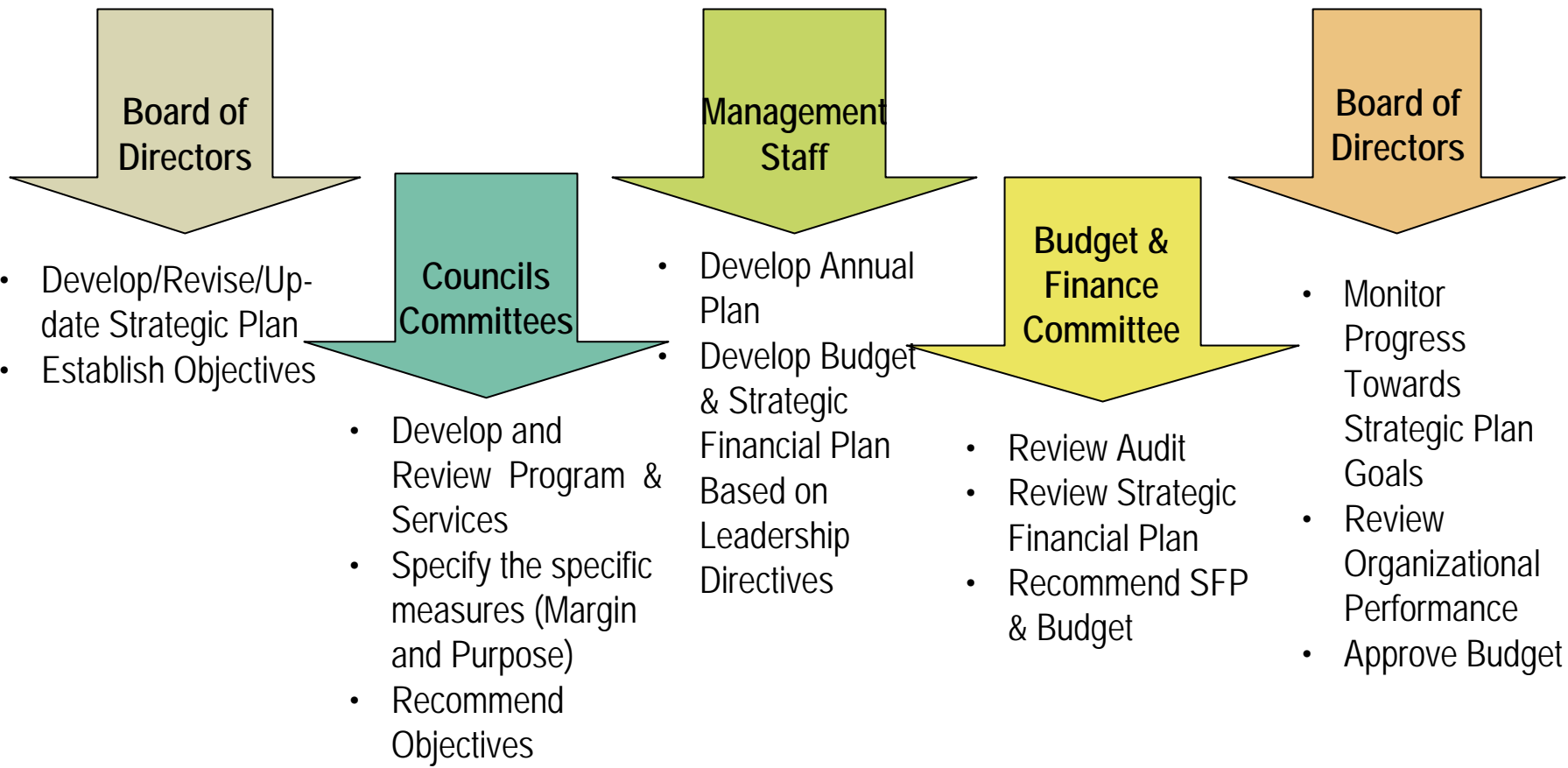
When presenting a program evaluation to a board, it is incumbent upon the individuals performing the review to make a recommendation.

- Programs that fail to meet their goals and serve the association can be cut, but they may also be able to be remediate.
- Staff should be prepared to answer questions about options for improving performance. If all viable options have been considered, and none are deemed to likely to succeed, it is the fiduciary responsibility of the board to cut the program.

Integrating Program Evaluation into Planning



Integrating Program Evaluation into Planning



For More Information, Contact. . .

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