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Is Program Evaluation a Good Investment?

by Roland J. Kushner

“Program evaluation” and “good investment” ... for some managers, these two make sense together, while for others, they are two management challenges that usually don’t show up in the same sentence. This article links the two, setting out a framework for program evaluations to be considered using the same decision process that managers would use to decide about more conventional investments in bricks, mortar, or program expansion. By investment, I mean a commitment of funds by an organization that is expected to be functional and productive for a long time, and also to have long-term benefit.

Program Evaluation

Briefly, program evaluation (“PE”) refers to the process of studying the effects of program activity on client populations, addressing efficiency, efficacy, and impact. Although PE is most often seen in human service organizations, it is also carried out in cultural, environmental, advocacy, relief, and many other nonprofits. In any setting, PE can be an input to planning, because of the quantity and nature of the data it can produce.

Everybody pays lip service to PE, but it can be tough to justify in financial terms. Some managers see it as discretionary, with limited payback, to be funded on a project basis, or to respond to external mandates, but not a core activity. If it’s a project, it can be abandoned when times are tough, unless someone is willing to pay for it. But this kind of thinking is problematic, because it disregards a key element of successful evaluation, which is consistent use over time. So, an investment in PE is a commitment to fund it consistently into the future. The key question is: how to decide if PE is a good investment that will generate appropriate returns over time?

Investment Decisions

The *gestalt* or big picture of investment decision-making is: estimate future benefits and costs, calculate the net effect, and determine how much that future net is worth right now. Nonprofits can validate their investments in new plant and equipment resources the same way as businesses: compare present and future costs and benefits to get to a net or aggregate estimate of the consequence. When human service or arts nonprofits want to invest in new facilities, planners can estimate additional traffic to be generated, as well as pricing for various services

and consumers, to get at part of the projected revenue change (expected subsidies being the other part). New square footage means new costs for program, maintenance, marketing, development, and administration. These projections can be used to estimate the net impact of an investment, in finance terms and in service terms.

The framework for deciding if an investment is financially sound basically asks if the future net change (revenue minus cost) from an investment, calculated in terms of their present worth, is more or less than what must be spent now to achieve that change. The challenge is to predict future benefits and costs, assign values to them, and convert those future values into some common currency such as today's dollars. In pure dollar terms, present value is calculated by discounting, assigning a lower worth to future returns using some interest rate. This is the "net present value".¹ Borrowing cost can be a proxy for interest, even though most nonprofits try to pay for capital improvements with donated money. A higher interest rate implies that one treats a prediction of the future as having less worth now (e.g., interest rates on junk bonds). More confidence in the future suggests a lower interest rate. Regardless of where it's set, it represents the opportunity cost of using those resources for an investment instead of for any other purpose.

This way of making investment decisions is remarkably flexible and accommodates numerous decisions facing nonprofit managers. The questions are consistent across the investment options: What are the initial outlays? What returns do they produce, in terms of both mission and finances? What are those future returns worth now? What are the costs of failing to make the investment? (Also, Are the resources available to fund the investment?).

This framework applies to decisions on whether to invest in program or activities. Some information is financial, and some is more judgmental, and harder to verify. But that is really no different from the forecasts planners must make when they consider investing in bricks and mortar – in both settings, probabilistic estimates of the future is the best information available.

Costs and Benefits of Program Evaluation

An investment decision requires projections of immediate costs, continuing costs, expected benefits, and any consequences of not making the investment. Initial costs may include external consulting, training for one or more staff members, and maybe software (usually needed only for large and complex programs – standard spreadsheet products are usually up to the task of analyzing program data). There are also on-going costs per year to implement the program, such as allocating staff time or assigning full-time staff, the additional cost of managers' time that has to be devoted to evaluation, and program adjustments to

¹The formula for this is easy and can be found in many basic finance or accounting books.

accommodate PE.

Like any technical research process, PE can be made more reliable and more valid (i.e., higher quality) by spending more. Evaluation involves learning, and learning takes time. You can't turn a switch and say, "we now have an evaluation program." Like fundraising and grant writing, it is an effort that needs to be sustained. When nonprofits treat evaluation as a budget line to be turned off and on, that learning will be harder to achieve, which is the reason to portray PE investment as a more long-term commitment.

The benefits side is harder to measure. A PE investment just doesn't deliver the comfortable tangibility of a new building. Boards, nonprofit leaders, and program managers have to do hard work here, to assign some worth to future benefits and assess them in present terms as a standard for spending today's money. The value to apply here relates to organizational performance, focusing on the magnitude of the improvement PE is supposed to deliver. Is it suitable? worthy? compelling? Using the framework, it is possible to identify the performance improvement that nonprofits can gain from investing in evaluation. Here are some benefits, which apply to different nonprofits in different ways.

PE results, especially if they are reliable and valid, can be used for program design, program management, and to inform program manager performance evaluation. When multiple models are available for delivering service, PE can help to identify the most cost-effective ones. PE can help to refute the common criticism that nonprofits are "soft," less accountable. Claims of quality service can be compelling to funders, clients, and community – especially when they are backed up with evidence. In a competitive environment, valid measures of program impact can enhance an organization's ability to secure funding, especially if others seeking funds from the same pot of money do not evaluate. Inside an organization, the results of PE can guide resource allocation, by indicating which programs are (or are not) having desired impacts on client populations. These are knowledge benefits that are likely to grow over time.

There are also consequences to *not* conducting PE, in the same areas where benefits are expected: service to needy populations, accountability, resource allocation, competitive funding stance, and organizational learning. Without PE, program designers, managers, budget managers, and resource development activities are ultimately less informed and therefore, potentially, less effective. The investment decision ought to incorporate that potential.

Applying the Framework

Putting all this together, the analysis goes like this: At time zero (now), we will incur a certain amount of cost. We also commit to support evaluation at time 1, time 2, and even time 10, so we project various costs for continued PE activity. In subsequent time periods (1, 2, etc.), we project benefits in service,

accountability, allocation, ability to gain funding, and learning. These can be assigned appropriate values for the future time periods, with an underlying assumption that those benefits will grow over time. This gives us a year-by-year framework for looking at the net benefits. We should apply an appropriate discount rate to help measure future net losses or gains in present terms. The greater our confidence in the benefits, the higher the weight that we'll assign to future returns. We also assume that the *status quo* has a cost, so we consider what would happen if we don't make a PE investment, and try to cost out those consequences. The yes/no answer we seek comes from looking methodically and carefully at all costs and benefits that may occur over time.

Conclusion

This article has presented the use of an investment decision framework as an appropriate way for a nonprofit to decide whether to invest in PE. Nonprofit managers should be able to apply these tools not only to evaluation but also to other decisions. Consider the process of establishing an organization's first development office. First year payback is not the right criterion for making that decision, because it under-values the organizational learning and relationship-building that take time. A longer-term view places more confidence in future returns, and helps to make the financial case for a development office. For non-financial benefits like organizational development, organizations need effectiveness measures that have the same weight in decision-making that dollars usually do. Investing in PE may make it easier for nonprofit Boards and leaders to get to those measures, so they are better able to value their intangible results.

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