SW 799: Advanced Topics in Macro Social Work: Minicourse on Budgeting and Fiscal Management

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July 10th and 17th, 2008; Room 3816 SSWB; 8:30 AM- 4:30PM

This minicourse, offered over two days, will focus on three or four key skills in the area of budget and fiscal management. The first is budgeting, and it emphasizes the kinds of budgets (standard, functional, performance, among others) as well as the process of budget building (bottom-up; top down, zero-based) and a variety of budget documents.

The second topic is financial management, which builds upon the budgeting material, and looks to see if you are tracking on your budget, budget variances, risk management, and consider the various overall financial measures that assist in tracking performance (ROI, ROE, etc.)

The third session introduces the concept of PUMA (Professional Unit Method of Analysis.) It is a form of “activity based costing” that looks at who is doing the actual “work” of the agency, and who is supporting that work. This calculation produces the front room/backroom ratio, and we will compare ratios of different organizations in session. We then look at the cost of providing an either a worker (say an adoption worker) to perform that activity, or the cost of the activity (an adoption) leading us to consider cost/worker week or hour (output) as one measure or cost per outcome (an adoption) as another. It is hoped that in-sessions teams of practitioners and students can work together on practical exercises using financial data from practitioner’s agencies or student’s placements.

The fourth element (if there is time) will be applying the total compensation model to employee compensation, and looking at the compensation system of the organization. Approximately 2/3 of each session will be lecture/discussion, and 1/3 application.
MATERIALS ARE ON c-TOOLS

Nelson/Economy MANAGING FOR DUMMIES, Chapter 18, Budgeting, Accounting and Other Money Stuff

M..L.Flynn, “Budgeting in Community Organizations” Principles for the 90s” [ but it is still ok!]

J. and E. Tropman, “Index of Dissimilarity and the Professional Unit Method of Analysis”

Marci Thomas “Managing the Finances of Nonprofit Organizations

Clara Miller The Looking-Glass World of Nonprofit Money: Managing in For-Profits’ Shadow Universe

Resource


http://marketplace.publicradio.org/

ASSIGNMENTS

This is a Rapid Intelligence Workshop. We have only 2 days I hope that you can look at the material ahead of time and come prepared having done the reading.

You are also requested to bring a budget statement from your agency, as well as workload numbers.

Your “assignment” for purposes of a grade will be selected as an application of material which will be decided upon during the class sessions and due one week after the class ends, July 24th. Grading will be S/U. It can be done in groups.
SESSION 1
July 16th Morning

INTRODUCTION
THE SOCIAL MEANING OF MONEY
BUDGETS

Flynn, “Budgeting in Community Organization”
Thomas, “Managing the Finances of Nonprofit Organizations” Prepare the skills application exercise on p. 273.

Obtain a balance sheet and operating statement from a nonprofit organization. Review these, trying to apply the definitions and concepts in this chapter. Classify the various accounts, identifying assets, liabilities, fund balances, revenue, and expenses.
Review the financial statements, assessing the financial status of the organization, identifying any concerns or issues that may be indicated by the financial statements. Identify any strategies in place in the organization aimed at preventing fraud.

SESSION 2
July 16th. Afternoon

FINANCIAL CONTROLS

Read “Activity Based Costing” – attached
Read Macmillan Matrix - attached
SESSION 3
July 17th, Morning

PROFESSIONAL UNIT METHOD OF ANALYSIS

Read Tropman and Tropman, “Index and PUMA”

SESSION 4
July 17th, Afternoon

TOTAL COMPENSATION MODEL

INITIAL PROJECT REPORTS

Activity Based Costing

From Wikipedia, the free encyclopedia

Jump to: navigation, search

Activity-based costing (ABC) is a method of allocating costs to products and services. It is generally used as a tool for planning and control. This is a necessary tool for doing value chain analysis.

The concepts of ABC were developed in the manufacturing sector of the U.S. during the 1970s and 80s. During this time, the Consortium for Advanced Manufacturing-International, now known simply as CAM-I (www.cam-i.org), provided a formative role for studying and formalizing the principles that have become more formally known as Activity-Based Costing. Robin Cooper and Robert Kaplan, proponent of the Balanced Scorecard, brought notice to these concepts in a number of articles published in Harvard Business Review beginning in 1988. Cooper and Kaplan described ABC as an approach to solve the problems of traditional cost management systems. These traditional costing systems are often unable to determine accurately the actual costs of production and of the costs of related services. Consequently managers were making decisions based on inaccurate data especially where there are multiple products.

Instead of using broad arbitrary percentages to allocate costs, ABC seeks to identify cause and effect relationships to objectively assign costs. Once costs of the activities have
been identified, the cost of each activity is attributed to each product to the extent that the product uses the activity. In this way ABC often identifies areas of high overhead costs per unit and so directs attention to finding ways to reduce the costs or to charge more for costly products.

**[edit] Detailed description**

Activity-based costing was first clearly defined in 1987 by Robert S. Kaplan and W. Bruns as a chapter in their book *Accounting and Management: A Field Study Perspective* (Harvard Business School Press 1987 ISBN 0-87584-186-4). They initially focused on manufacturing industry where increasing technology and productivity improvements have reduced the relative proportion of the direct costs of labor and materials, but have increased relative proportion of indirect costs. For example, increased automation has reduced labor, which is a direct cost, but has increased depreciation, which is an indirect cost.

Traditionally cost accountants had arbitrarily added a broad percentage onto the direct costs to allow for the indirect costs. However as the percentages of overhead costs had risen, this technique became increasingly inaccurate because the indirect costs were not caused equally by all the products. For example, one product might take more time in one expensive machine than another product, but since the amount of direct labor and materials might be the same, the additional cost for the use of the machine would not be recognised when the same broad 'on-cost' percentage is added to all products. Consequently, when multiple products share common costs, there is a danger of one product subsidising another.

Like manufacturing industries, financial institutions also have diverse products which can cause cross-product subsidies. Since personnel expenses represent the largest single component of non-interest expense in financial institutions, these costs must also be attributed more accurately to products and customers. Activity based costing, even though developed for manufacturing, can therefore be a useful tool for doing this. This extended use of ABC to financial institutions was presented in 1990 in an article appearing in the Journal of Bank Cost and Management Accounting (Volume 3, Number 2) by Richard Sapp, David Crawford and Steven Rebishcke. There was also a subsequent article in 1991 in the same Journal (Volume 4, Number 1).

Direct labor and materials are relatively easy to trace directly to products, but it is more difficult to directly allocate indirect costs to products. Where products use common resources differently, some sort of weighting is needed in the cost allocation process. The measure of the use of a shared activity by each of the products is known as the cost driver. For example, the cost of the activity of bank tellers can be ascribed to each product by measuring how long each product's transactions takes at the counter and then by measuring the number of each type of transaction.

**[edit] Limitations**
Even in activity-based costing, some overhead costs are difficult to assign to products and customers, for example the chief executive's salary. These costs are termed 'business sustaining' and are not assigned to products and customers because there is no meaningful method. This lump of unallocated overhead costs must nevertheless be met by contributions from each of the products, but it is not as large as the overhead costs before ABC is employed.

Although some may argue that costs untraceable to activities should be "arbitrarily allocated" to products, it is important to realize that the only purpose of ABC is to provide information to management. Therefore, there is no reason to assign any cost in an arbitrary manner. Management accountants can be creative in finding other ways to represent these costs on internal reporting statements.

Tool — MacMillan Matrix

Nonprofit staff are often uncomfortable discussing “competitiveness” or “resource allocation” — not because we don’t understand these ideas, but because we like concentrating on the people we help through our work. Recent environmental changes — shifts in funding priorities, increased home computer usage, and a proliferation of community technology programs — require us, however, to use these concepts to ensure that we truly are meeting the needs of the people we want to help.

The MacMillan Matrix can help your CTC discover the program areas that are most needed in your community and that you are in the best position to provide. The Matrix is based on the following assumptions:

- Nonprofits should avoid duplicating services. This will ensure that limited resources are used well and quality of service is maximized.
- Nonprofits should focus on a limited number of high-quality services, rather than providing many mediocre services.
- Nonprofits should collaborate so that a continuum of service can be provided with each partner focusing on specific pieces.

The MacMillan Matrix will help you assess current and prospective programs according to four criteria — fit with your organization’s mission, attractiveness to funders and participants, whether the service is provided elsewhere, and organizational capacity. Below is an adapted MacMillan Matrix for CTCs.

<table>
<thead>
<tr>
<th>MacMillan Matrix for CTCs</th>
<th>Program is Very Attractive to Funders and/or Community Participants</th>
<th>Program is Not Attractive to Funders and/or Community Participants</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Several Orgs. Offer Similar</td>
<td>Few/No Orgs. Offer Similar.</td>
</tr>
<tr>
<td></td>
<td>Few/No Orgs. Offer Similar Programs</td>
<td>Several Orgs. Offer Similar Programs</td>
</tr>
<tr>
<td></td>
<td>Few/No Orgs. Offer</td>
<td>Few/No Orgs. Offer</td>
</tr>
</tbody>
</table>

1 http://www.ctcnet.org/what/action/?page_id=39
Each current and prospective program should be put into the appropriate square. Those program ideas that fall into top row (good fit and high capacity) should be kept. The programs in the top right-most cell are those programs that your CTC is well-suited to provide and that are most needed, but are difficult to fund. These are the programs that you should consider subsidizing with general operating funds. Those program ideas in the bottom two rows should usually not be undertaken.

### Resources:

- [Alliance for NonProfit Management MacMillan Matrix FAQ](#)
- [MacMillan Matrix 15-page How-To Guide and](#)
**Worksheet** (free from the Forbes Group, but requires filling out a form)

**No Comments so far**

**Leave a comment or suggest a resource**

**Question**

**How can we do a competitive analysis?**

**Answer**

Nonprofits have not traditionally been thought of as organizations that need to be competitively oriented. Unlike for-profit businesses, which compete for customers and whose very survival depends on providing services or products to satisfied, paying "clients," many nonprofit organizations operate in a non-market, or grants, economy - one in which services may not be commercially viable. In other words, the marketplace may not supply sufficient resources to support an adequate, ongoing provider base. Moreover, the customer (client) does not decide which provider gets adequate, ongoing funding. (In fact, many nonprofits are considered "sole-source," the only place to get the service, so there is not necessarily any choice in which provider receives funding even if the client does have some say). Consequently, nonprofit organizations have not necessarily had an incentive to question the status quo, to assess whether client needs were being met, or to examine the cost-effectiveness or quality of available services.

The competitive environment has changed, however: funders and clients, alike, are beginning to demand more accountability; sole-sourced nonprofits are finding that their very success is encouraging others to enter the field and compete for grants; and grant money and contributions are getting harder to come by, even as need and demand increase. This last trend - increasing demand for a smaller pool of resources, requires today's nonprofits to rethink how they do business, to compete where appropriate, to avoid duplicating existing comparable services, and to increase collaboration, when possible.

**The MacMillan Matrix for Competitive Analysis of Programs**

The MacMillan Matrix is an extraordinarily valuable tool that was specifically designed to help nonprofits assess their programs in that light. The matrix is based on the assumption that duplication of existing comparable services (unnecessary competition) among nonprofit organizations can fragment the limited resources available, leaving all providers too weak to increase the quality and cost-effectiveness of client services. The matrix also assumes that trying to be all things to all people can result in mediocre or low-quality service; instead, nonprofits should focus on delivering higher-quality service in a more focused (and perhaps limited) way. The matrix therefore helps organizations think about some very pragmatic questions:

- Are we the best organization to provide this service?
- Is competition good for our clients?
- Are we spreading ourselves too thin, without the capacity to sustain ourselves?
- Should we work cooperatively with another organization to provide services?

Using the MacMillan Matrix is a fairly straightforward process of assessing each current (or prospective) program according to four criteria, described below.

**1. Fit**

Fit is the degree to which a program "belongs" or fits within an organization. Criteria for "good fit" include:

- congruence with the purpose and mission of the organization;
- ability to draw on existing skills in the organization; and
- ability to share resources and coordinate activities with programs.

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2 [http://www.allianceonline.org/FAQ/strategic_planning/how_can_we_do_competitive.faq](http://www.allianceonline.org/FAQ/strategic_planning/how_can_we_do_competitive.faq)
2. Program Attractiveness

Program attractiveness is the degree to which a program is attractive to the organization from an economic perspective, as an investment of current and future resources (i.e., whether the program easily attracts resources). Any program that does not have high congruence with the organization’s purpose should be classified as unattractive. No program should be classified as highly attractive unless it is ranked as attractive on a substantial majority of the criteria below:

- high appeal to groups capable of providing current and future support
- stable funding
- market demand from a large client base
- appeal to volunteers
- measurable, reportable program results
- focus on prevention, rather than cure
- able to discontinue with relative ease, if necessary (i.e., low exit barriers)
- low client resistance to program services
- intended to promote the self-sufficiency or self-rehabilitation of client base

3. Alternative Coverage

Alternative coverage is the extent to which similar services are provided. If there are no other large, or very few small, comparable programs being provided in the same region, the program is classified as "low coverage." Otherwise, the coverage is "high."

4. Competitive Position

Competitive position is the degree to which the organization has a stronger capability and potential to deliver the program than other agencies - a combination of the organization's effectiveness, quality, credibility, and market share or dominance. Probably no program can be classified as being in a strong competitive position unless it has some clear basis for declaring superiority over all competitors in that program category. Criteria for a strong competitive position include:

- good location and logistical delivery system;
- large reservoir of client, community, or support group loyalty;
- past success securing funding;
- superior track record (or image) of service delivery;
- large market share of the target clientele currently served;
- gaining momentum or growing in relation to competitors;
- better quality service and/or service delivery than competitors;
- ability to raise funds, particularly for this type of program;
- superior skill at advocacy;
- superiority of technical skills needed for the program;
- superior organizational skills;
- superior local contacts;
- ability to conduct needed research into the program and/or properly monitor program performance;
- superior ability to communicate to stakeholders; and
- most cost effective delivery of service.

After each program is assessed in relation to the above four criteria, each is placed in the MacMillan matrix, as follows. For example, a program that is a good fit, is deemed attractive and strong
Once all programs have been placed in the appropriate positions on the matrix, an organization can review its mix of programs, sometimes called a "program portfolio," and decide if any adjustments need to be made. Ideally, an organization would have only two types of programs. The first would be attractive programs (programs that attract resources easily), in areas that the organization performs well and can compete aggressively for a dominant position.

These attractive programs can be used to support the second program type: the unattractive program with low coverage. The unattractive program is considered unattractive by funders, with low alternative coverage, but makes a special, unique contribution in which the organization is particularly well-qualified. These programs typically fall under Cell No. 6, the soul of the agency. These programs are known as the "soul of the agency" because the organization is committed to delivering the program even at the cost of subsidizing it from other programs. An organization cannot afford to fund unlimited "souls," and it might have to face some difficult decisions about how to develop a mix of programs that ensure organizational viability as well as high-quality service to clients.

For example, five years ago there was little funding for case management by AIDS Service Organizations. Unwilling to let clients fend for themselves in getting the help they needed, many organizations devoted staff time to this service. At the time this was a "soul of the agency" program. These days, this program is more attractive (i.e., fundable) though there is also growing alternative coverage. Therefore, organizations in a strong position to serve the clients well, with cultural competence and program expertise, should aggressively compete: those in a weak competitive position should get out of the business.

### Articulating Previous Strategies

Most organizations operate within the guidelines of certain program and organizational strategies, although often these have neither been recognized or articulated as actual strategies. Once an organization is in the process of strategic planning, however, it is time to make explicit these unspoken strategies and incorporate them into this deliberate consideration of the organization's future directions. This should happen as part of the situation assessment: look for past patterns of operation or allocation of resources -- these are your previous strategies; analyze whether those

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**Table:**

|----------|-----------------------------|--------------------------|---------------------|-------------------------------|------------------------|

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**Legend:**

- **High Program Attractiveness:** "Easy" Program
- **Low Program Attractiveness:** "Difficult" Program
- **Alternative Coverage:**
  - **High**
  - **Low**

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**Notes:**

1. Aggressive Competition
2. Aggressive Growth
3. Aggressive Divestment
4. Build Strength or Get Out
5. Build up the Best Competitor
6. "Soul of the Agency"
7. Orderly Divestment
8. "Foreign Aid" or Joint Venture
9. Aggressive Divestment
10. Orderly Divestment
strategies were effective, and why; and consider whether or not they should be held as strategies for the future.

Identification of Critical Issues

Upon completion of the situation assessment, a planning committee should be in a position to identify all of the critical issues, or fundamental problems or choices, facing the organization, and then begin to address those issues and identify priorities. A first attempt will probably result in a very long list of "critical" issues. Some might indeed be critical, but require no action at present and should, therefore, be monitored; some will require immediate attention, and as such should be dealt with accordingly; and some will be of critical importance to the long-term viability and success of the organization. Those are the issues (usually no more than six to eight issues qualify) that become the framework for the decisions that must be made next: decisions regarding strategies, long-range goals and objectives, and financial requirements.

To arrive at this final list of true critical issues, the planning committee should brainstorm a list of issues that might qualify and then assess each issue by asking: Why is it an issue? What are the consequences of not responding to this issue in the near future? Why does the issue need immediate attention? Why is it a critical issue? Again, the final list should include no more than six to eight items; beyond that, the organization is in danger of losing focus and sabotaging its own best intentions.

Finally, additional research may be needed, in order to gather specific information about new opportunities which can be pursued. This might include: description of new target markets and their needs; description of new products and/or services with descriptions of start-up costs, competitor analysis, long-term financial projections, and break-even analysis.