

# A NEW WAY TO EVALUATE YOUR ORGANIZATION'S PERFORMANCE: Measure Your Use of Time

*How do staff members use their time? The answer holds the key to your organization's success, as a new technique reveals.*

BY WILLIAM D. STOUT

Chances are you've had to evaluate your organization's performance. How did you do it? Did you turn to your organization's financial statements and point to the amount applied to your mission—"We spend 90 cents of every dollar to perform our mission, so we must be efficient"? Or did you use outcome measures—"Two-thirds of the people completing our program got jobs—an excellent outcome"?

Both these measures have problems. The fact that you spend 90 cents on the dollar on your mission doesn't mean you spend it on the right things. Outcome measures are difficult to quantify. And both measures are externally oriented. That is, they're aimed at providing outsiders, such as donors, with information on organizational performance. Neither is particularly helpful in managing a nonprofit organization.

Nonprofit managers need a single, quantifiable, and verifiable measure of efficiency and effectiveness. This article suggests such a measure, time.

Time is the great equalizer. Rich or poor, young or old, educated or not, you get 24 hours a day. How you and your staff use that time determines how successfully you manage your organization.

Applying this method will help you see whether you're allocating your staff's time to the right activities and outcomes. If you're serving 100 clients a month, is that good? Could you do better? Could you use time more efficiently to better achieve your mission? Examining your use of time will provide a wealth of insights into how your organization is performing and how you can improve your results.

## A LESSON FROM ACCOUNTING

Over the past several years, managerial accounting has undergone a sea change. Traditional cost accounting has been under fire from many sides.

One important aspect of managerial accounting is the *allocation* of costs. The method used to allocate depreciation on a building, or the costs of maintaining machinery, can have a great effect on the reported cost, and therefore the profit, of a particular product or service. You base decisions on those reported costs and profits, so the methodology of allocating costs may determine whether you continue or discontinue a product.

Proponents of a new methodology of cost allocation have cited *misallocation* of costs as a significant problem. That new methodology is referred to as Activity-Based Costing or ABC.

ABC offers a different perspective on the allocation of costs. The underlying concept of ABC is that products don't "cause" costs; activities do. Traditional cost accounting focuses on an "equitable" allocation of costs to products. In some cases, however, "equitable" isn't accurate. Another problem with traditional cost accounting is that some costs are recognized as "general" expenses and not related to specific products. Figure 1 illustrates these shortcomings.

ABC tackles these problems by allocating costs first to the activities that generate them, and then to the products that use the activities. In case 1 (see Figure 1), the activity is setting up the machine. The cost of setting up the machine is directly related to the amount of time consumed in the set-up. Under ABC, the activity is allocated to products based on usage of that activity, and

Nonprofit World • Volume 19, Number 4 July/August 2001  
Published by the Society for Nonprofit Organizations  
6314 Odana Road, Suite 1, Madison, WI 53719 • (608) 274-9777  
www.danenet.org/snpo

## Figure 1. Two Cost Allocation Examples

**Case 1** Sample Company produces two products (A and B), both of which are processed on a particular machine. The machine must be adjusted before working on product A and product B. Due to the nature of the machine, setting it up to produce product B takes twice as long as the set-up for product A. Sample Company allocates the costs of setting up the machine by dividing the total cost of the set-up time by the number of products produced. As a result, products A and B are allocated the same amount of cost for setting up the machine. The total cost of product A is overstated and the total cost of product B is understated.

**Case 2** Sample Company produces a product for sale to both commercial and government customers. The product cost is relatively low and the profit margin is high. The price to both commercial and government customers is the same. However, sales to the government require additional paperwork, the cost of which is included in “selling, general and administrative” expenses on Sample Company’s income statement. The product manager receives a bonus every year and is delighted with sales to both customers. Sample Company is losing its shirt on sales to the government.

product B is charged a greater share of set-up costs. In case 2, the activity is selling the finished product. Under ABC, paperwork is identified as a separate activity and allocated to the sale of products to government customers. That particular product line would be identified as unprofitable.

Some writers have proposed applying the techniques of ABC to nonprofit organizations—but using traditional dollars-and-cents measures (see Lambert and Whitworth in “References”). Since nonprofits aren’t profit-oriented, however, such financial measures may not reveal much. This article shows how you can link ABC techniques with a measure that’s critical to your organization’s success—time and how you use it.

### EIGHT STEPS TO ABTM

In examining your organization’s use of time, the techniques of ABC are useful. The evaluation process described here is referred to as Activity-Based Time Management or ABTM. With ABTM, your goal is to relate time resources “spent” by the organization to achieve a desired out-

come. There are eight steps to applying ABTM:

#### Step 1: Identify Services to Be Evaluated.

First, ask yourself: What services (or in some cases products) does your organization provide? The services identified may be relatively broad or very specific. Using an adoption agency as an example, one service might be “placing a child in an adoptive home.” Or the services might be more specific: (a) identify potential adoptive families, (b) provide training for those families, and (c) place a child for adoption with each family. To be effective, the evaluation should include activities more specific than the organization’s mission statement. Ultimately, the usefulness of this tool will be in comparing alternative uses of time. (See Figure 2.)

#### Step 2: Pinpoint Key Activities.

Next, ask: What activities must take place to provide those services? For example, key activities for the adoption agency might include the following:

- Screen telephone calls.
- Assign caller to social worker.
- Mail literature to prospective adoptive family.
- Prepare monthly statistics on calls.
- Follow up on status of families.

These activities represent just one aspect of a hypothetical organization. In a real setting, the number of activities could be much greater. Of course, there is no required level of detail. In implementing ABTM, you may choose a higher-level view of what constitutes an activity. You could define placing a child in an adoptive family as a single activity, for example. More detail doesn’t necessarily result in better information, but too little detail will weaken the information when you evaluate it.

Another concern in identifying activities is that they may (and probably will) overlap. That is, certain activities may be common to more than one service or product. In a multi-service nonprofit, the activity of screening phone calls might serve several service activities.

#### Step 3: Identify Time Drivers.

A time driver measures the time devoted to an activity. Take the activity of screening phone calls. The simplest time driver is the number of calls received. More calls translate to more time spent. The idea is to specify some measurable event that explains the relationship between an activity and the amount of time devoted to it.

If an activity doesn’t have a time driver, examine it carefully. It may be part of some other activity, or perhaps you’ve incorrectly specified the activity and need to rethink it. Every activity must have some measure that specifies the time devoted to it.

#### Step 4: Determine Activity Drivers.

Just as time drivers relate activities to time, activity drivers relate activities to outcomes. The goal of

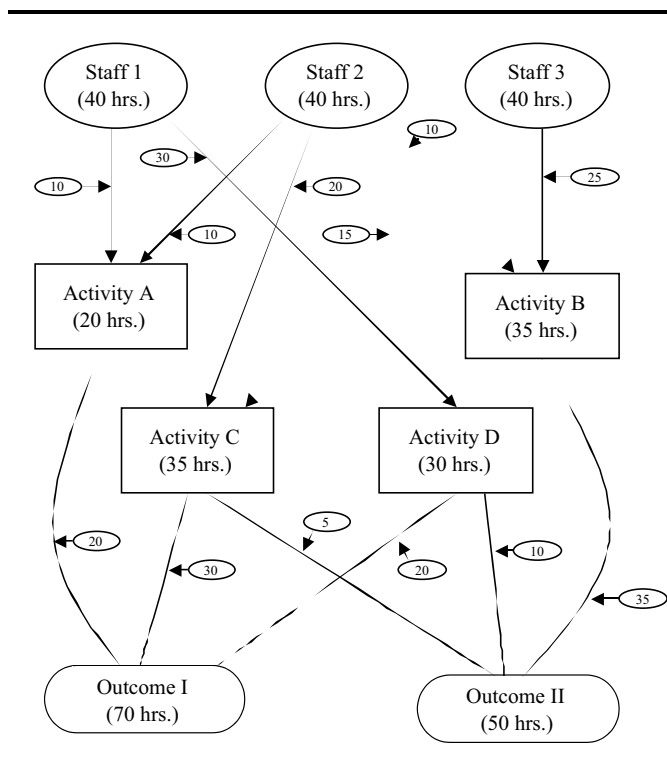


Figure 2. Analysis of Time Resources of Three Staff Individuals

this step is to relate time spent creating services to clients receiving those services.

Say, for instance, that the desired outcome is to have a caller attend an information meeting. Suppose that one of every five calls results in a client attending an information meeting. The activity driver is the number of calls divided by five.

If you've identified activities that don't relate to your outcomes, perhaps you're overlooking an outcome. Or perhaps the activity no longer has relevance, in which case it may be time to eliminate it.

### Step 5: Specify Time Resources.

Next, ask yourself: How much time do you, as an organization, have available? In answering this question, you'll have to make some decisions:

- Should you include only the time resources of paid staff? Or should you also include volunteers? A strong case can be made to include volunteers who work regular hours and are an integral part of the organization. For example, if volunteers staff an information desk during normal business hours, these resources may appropriately be included in evaluating the use of the organization's resources. Occasional volunteer assistance may be appropriately excluded. This is a judgment that must be made on a case-by-case basis.
- Should you include uncompensated overtime as well as paid time? Many nonprofit workers are on the job well beyond the eight-hour day. This uncompensated

time may be a valuable resource to the organization. Without the additional time spent by paid staff, services would not be provided or additional staff would need to be hired. Although including uncompensated time may be a touchy issue, it is likely appropriate for most organizations.

- Over what period should you measure time? For most organizations, time fluctuates, perhaps week-to-week or perhaps on a larger cycle. You may wish to select a "typical" month, some sort of natural cycle (perhaps clients are served over a three-month period), or a calendar or fiscal year.

Once you resolve these issues, determine the total number of hours available to the organization. Segmenting hours (such as keeping management separate from other staff) is not recommended.

### Step 6: Allocate Hours to Activities.

Now comes the fun! For the next two steps you may wish to use a spreadsheet package such as Microsoft's Excel. Or, if your organization isn't too complex, you may just use pencil and paper.

For this step, you'll take the information you gathered in step 3 (time devoted to the activity) and step 5 (total hours available) and apply it to one of the key activities you pinpointed in step 2.

For example, consider the activity of screening phone calls. One approach is to count the number of calls processed over some time period and divide that into the number of hours available. Unfortunately, such an approach may miss idle time, during which people are waiting for calls. A better approach is to ask someone to observe the activity and record the time spent.

(Keep in mind that idle time isn't necessarily bad. It may be necessary to have some down time in order to provide service over 10 hours each day and to meet peak demand at various times. From an evaluation standpoint, however, it's important to identify idle time.)

Next, multiply each time driver by the number of hours per unit of activity. Then compare hours allocated with total hours available to the organization.

If more hours are allocated than are available, you may be missing uncompensated time, or perhaps the association of time with the time drivers is too generous. For example, you might initially allocate half an hour to each screening call. If multiplying the number of calls by one-half hour adds up to more time than the staff has available, one of two problems (or a combination) may exist. Perhaps the individuals who screen calls are working through their lunch breaks and taking calls nine hours a day, instead of the expected eight hours. Or perhaps they stay until 6:00 p.m. two or three nights each week, instead of leaving on time. Alternatively, it may be that half an hour per call is unrealistic: Perhaps the call

screeners process three or more calls per hour.

If the number of hours allocated is well below the number of hours available, you may have problems opposite those described above. Employees may be using the unallocated time on other activities, or they may have idle time you haven't identified.

After you've performed this step for one activity, do the same thing for the other key activities you've identified.

### **Step 7: Associate Hours with Outcomes.**

For this step, you'll apply the information you gathered in step 4, in which you related activities to outcomes. Say, for example, that by reviewing records and interviewing staff you learn that a client attends an information meeting in one of five cases. You can now allocate the activity (screening calls) with the outcome (an information meeting). And since you've already allocated hours to the activity, you can allocate hours to the outcome. If each call consumes half an hour of staff time, and five calls must be processed to bring in one family, then 2½ hours of staff time are devoted to each family who attends an information meeting. Of course, other activities must take place for that family to participate in a meeting, and the time associated with those activities will be added to the 2½ hours of staff time identified.

### **Step 8: Assess Results.**

The final step is for managers and board members to evaluate the information generated from this process. The information will be useful in determining whether the organization's resources are being used most effectively. Most organizations will identify several outcomes. Reviewing how time is allocated to those outcomes will help in making important decisions about the organization's focus and future needs.

## **LESSONS LEARNED**

Applying ABTM will reveal whether you're allocating staff time to your organization's most important outcomes. For example, Figure 2 shows that of 120 hours of available staff time, 70 hours are devoted to a single outcome. Perhaps too much time is devoted to Outcome I, which is of lesser importance to the organization's success. Or, perhaps volunteer assistance is available to take over staff responsibilities for that outcome, freeing up staff time for Outcome II.

ABTM will also help you evaluate time spent on specific activities. Perhaps Activity B, for example, is consuming too much staff time and needs to be automated to free additional resources.

ABTM will provide a new perspective on resource use and a tool

to maximize your organization's success. Its most important benefit is a better understanding of how you use—and how you can capitalize on—the scarce and precious resource of time. ■

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