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ORGANIZATIONAL CONSIDERATIONS IN THE APPLICATION
OF BUDGETING AND COST EFFECTIVENESS SYSTEMS TO
SOCIAL WELFARE ORGANIZATIONS

Charles Cowger, D.S.W.

Social welfare organizations have distinctive organizational characteristics which hinder their adaptability to budget and cost effectiveness systems. This paper identifies those characteristics and discusses their significance.

IMPACT OF PROGRAM BUDGETING AND COST EFFECTIVENESS SYSTEMS²

The application of program budgeting and cost effectiveness systems to social welfare services has been an attempt to get better business management, more accountability, and improved planning into the social services. The contributions of this thrust to the social services include: 1) clarification of social service goals; 2) the transfer of the focus of decision making from the means to the objectives; 3) the strengthening of the role of knowledge in decision making; 4) focusing evaluation as a central part of the management scheme of social services; and, 5) making priority determination central to the planning process.

Program budgeting and cost effectiveness systems have also had serious limitations. Cited problems include: 1) the attempt to quantify things that cannot be quantified; 2) conflict between emphasis on budget and evaluation criteria vs. meeting human needs, e. g., "skimming" potentially successful clients in order to meet efficiency and effectiveness criteria; 3) the use of measuring instruments that are too primitive to assess what is really going on in a complex world, organization, program or person; 4) the treatment of

¹An earlier version of this paper was presented at the Council on Social Work Education Annual Program meeting, Atlanta, Georgia, March 12, 1974.

²"Program budgeting and cost effectiveness systems" include budgeting systems such as functional accounting, cost analysis, cost benefit analysis, PPBS, and cost utility analysis.

³For discussion of contributions (potential and actual) of program budgeting and cost effectiveness systems, see Kahn (8), Novick (13), Levine (11), Haverton and Margolis (6), and U.S. Congress (17).

social work practice as a purely scientific endeavor; 5) the centralization of planning which makes social welfare organizations less flexible to immediate needs;⁴ and 6) emphasis on efficiency at the expense of effectiveness.

There is little evidence that program budgeting and cost effectiveness systems have lived up to their expectations.⁵ However, these systems appear to be here to stay and have considerable potential for the future. If future systems are to be successful however, the unique organization characteristics of social welfare organizations will need to be considered.

NEED FOR ORGANIZATIONAL TAXONOMIES

An attempt to apply an organizational technique such as "cost benefit analysis" across different kinds of organizations must assume that the characteristics of those organizations are similar, where as in fact organizations differ widely. Contrary to the message of systems theory, anything that is true about all organizations is likely to be either too general or trivial to be of much value (16:19). As one reviews the program budgeting and cost effectiveness literature, there is a notable absence of serious consideration of differential characteristics of organizations. Evaluation tools that are effective for assessment in one type of organization may have no inherent carry over to other types of organizations.

Perhaps the primary reason for lack of consideration given to differential organizations in the program budgeting and cost effectiveness literature is that there exists minimal literature in the area of organizational taxonomy. The literature that does exist has generally been oversimplified and based on "pure" types. Existing taxonomies have been convenient but not instructive (9:19). However, there have been some recent attempts to distinguish those organizations that have human beings as the basic raw material on which work is performed.

⁴For discussion of limitations of program budgeting and cost effectiveness systems in social welfare organizations, see Haverman and Margolis (6), Kahn (8), and Widausky (18).

⁵See Maynihan (12), Huitt (7), and Feldman (3).

These organizations have been referred to as "people-molding" organizations by Parsons (14), and "people-processing" organizations by Lefton (10), Katz (9), and Burns (2). In addition, Hasenfeld was differentiated between "people-processing" organizations and "people-changing" organizations (5). The purpose of the above work has primarily been to examine the impact of humans as raw material on other organizational structure and process.

Program budgeting and cost effectiveness systems are primarily concerned with evaluation and, therefore, measurement. Effective budget and cost effectiveness systems require precise measurement of inputs, processing and outputs. The significance of examining the raw material, technology, and environment of social welfare organizations lies in the measurement problems presented by those characteristics.

SOCIAL WELFARE ORGANIZATIONS: DISTINCTIVE CHARACTERISTICS

In order to illustrate the distinctiveness of social welfare organizations and demonstrate application problems of budget and cost effectiveness systems to those organizations, three organizational characteristics will be considered: 1) the nature of the raw material; 2) the nature of the primary technology; and 3) the nature of environmental constraints. In contrast to social welfare organizations, budget and cost effectiveness systems adapt well to economic or production organizations.⁶ Therefore, the following examination of distinctive characteristics of social welfare organizations will include a comparison to production organizations.

Raw Material: The raw material of the primary technology of production organizations is objects or physical matter (9:128). Budgeting and cost effectiveness systems fit well with production organizations partly because the raw material is generally stable, has rather precise normative characteristics, and therefore is measureable. While the raw material is processed, it provides little reactive effect. What reactive effect does occur is consistent and predictable. Qualitative and quantitative units of the raw material are definable and measurable at the point of input and output. Cost per unit of output is easily arrived at.

⁶Economic or production organizations are concerned with the "creation of wealth in direct fashion, either through extracting materials from the environment, transforming objects for consumption, or rendering some services related to these activities (9:128)." Economic or production organizations will hereafter be referred to as production organizations.

The raw material of social welfare organizations is people. The social welfare organization is concerned with changing people who come within its boundaries. People are unpredictable and have only broad general normative characteristics. In addition, the raw material (people) is reactive in nature, unstable, unpredictable, and therefore comparatively difficult to measure at the point of input, processing, and output. Most human change models require cooperation and/or participation of the client (raw material) for either pragmatic or ethical reasons. Therefore, the issue of motivating the raw material provides special problems not encountered by production organizations. These problems are related to lack of knowledge about the raw material (e. g., what really motivates people). Quantitative measurement of the raw material is limited at the point of input, processing, and output to number of persons. Qualitative measurement of input and output is as general and unpredictable as the raw material.

Nature of Technology: By technology is meant the "actions that an individual performs upon an object, with or without the aid of tools or mechanical devices, in order to make some change in that object (16:195)." The technology is the work that is done in an organization.⁷

Because the economic function of production organizations is directed at the molding of objects rather than people, "its structural elaboration is better attuned to things than people" (9:128). Budgeting and cost effectiveness systems are also better attuned to things than people.

Mechanization is the dominant principle of the production organization. Since the raw material is stable and predictable, the technology of changing or processing that raw material may be routinized. Worker behavior may be precisely prescribed and evaluated. Units of work may be specified and evaluated with specificity. Worker discretionary decision making is minimal. In general, the technology of production organizations is further advanced than the technology of social welfare organizations when evaluated by the criteria of predictability, precision and efficiency. Production technology is therefore more easily measured and therefore, more amenable to the tools of budget and cost effectiveness systems.

⁷The concern here is the "primary" technology of the organization. The "primary" technology is the technology that is applied to shaping, changing, or molding the raw material.

The nature of the raw material of an organization makes a difference in how an organization is structured and operated and determines characteristics of the technology of the organization. According to Perrow, the critical significance of the raw material's influence on the technology is the "number of exceptional cases encountered in the work" and the "nature of worker behavior when exceptional cases are found" (16:195). Few exceptional cases are found in production organizations where the raw material is stable and consistent over time. Many exceptions are found in social welfare organizations where raw material is not only unstable, but also presents an unpredictable reactive effect when the technology is implemented. The behaviors of a community organization worker could be heavily prescribed if one were only concerned with the technical aspects of organization building, community change, community development, etc. However, the uniqueness of each community and the reactive effects of each community organization requires behavior from workers that cannot be technically prescribed. Social welfare organizations require a wider area of discretionary power for staff members (9:132). Therefore, the technology of social welfare organizations is again more difficult to measure.

The technology of social welfare organizations, primarily due to the reactive effect of the raw material, is far less prescribed, routinized and predictable. The science of human behavior is simply not as advanced as the natural sciences (1). Units of work are more difficult to assess and worker behaviors more difficult to evaluate.

Assuming the above generalizations, how does one account for differential organizational structure found within the category of organizations which have humans as the raw material? Some social welfare organizations may in fact be more similar in organization to a steel factory than to other social welfare organizations. For example, in the Street, Vinter, Perrow 1966 study, one correctional institution referred to as "Dick" is described in a manner that appeared to utilize routine technology with explicit rules and procedures regulating worker behavior. In this case, it would appear that the actual nature of the raw material is much less important than the belief system operating in the organization about the raw material. If the belief system of the organization has reached closure on its knowledge about the raw material, as was the case with institution "Dick," its technology will more likely be routine. If the belief system of the organization has not arrived at closure on its knowledge base about the nature of the raw material, its technology will be non-routine. If a juvenile in a correctional institution is perceived as simply needing discipline, or needing to have some specified behaviors changed,

technology could be routine. For example, a rigorous discipline system with routine prescribed disciplining behaviors for staff could be instituted, or an operant conditioning program could be instituted with prescribed staff behaviors defined. If a juvenile is perceived in a framework of a person with complex personality characteristics who would demonstrate his needs by his behavior and through his own explanation of his problems, the technology would more likely be non-routine. Perrow's proposition that when the raw material is human, there is a greater likelihood of a technology that is non-routine, is probably correct. However, the more salient variable would appear to be the belief system operating in the organization about the raw material.

The implication of technology as being unique in social welfare organizations is significant when viewed in the context of budgeting and cost effectiveness systems. First, the technology of social welfare organizations is less prescribed, tends to be less routine and therefore work units are more difficult to define and technology is more difficult to measure. However, if social welfare organizations are willing to arrive at closure on their understanding of the nature of their raw material, the technology becomes easier to define and measure. Behavior modification appears to have the only current technology that meets budgeting and cost effectiveness assumptions about technology. It would appear that the application of budget and cost effectiveness systems to other technologies in social welfare organizations must either force artificial closure on belief about the raw material or artificial descriptions of work units.

Environment: Both production and social welfare organizations depend on an environmental exchange. The environment must receive the output and replenish the organization with energy inputs. This is primarily accomplished in production organization through the market place. The market place provides an observable and constant check as to the success of its product and future energy inputs. Since the activity of the market place of production organizations is measurable, it adapts well to a budgeting and cost effectiveness system.

The market place of social welfare organizations does not provide a precise and direct feedback system. Social welfare organizations have two primary marketing publics; the user of the service and the "general public." Both "purchase" the product and provide energy inputs. However, these inputs do not provide a precise and direct feedback system due to the greater degree of dependence upon components

other than the consumer of the product for energy inputs. Most social welfare organizations have third party purchasers of the service which makes them more vulnerable to a complex array of energy input constraints.

Energy inputs of/to the organization may be tied to client need, public demand, political maneuvering, legislative procedures, bureau of budget procedures, and/or executive "branch of government" whims. Each of these constraints on energy input is related to numerous evaluative perspectives of the organization. Like the production organization, the social welfare organization is viewed and evaluated one way by recipients of its product, and other ways by various social aggregates of the general public. However, unlike the production organization, the social welfare organization has no direct feedback as to how it is doing. In fact it may be doing very well as far as the consumer perceives it, but not receive energy inputs from the third party purchaser (e. g., government, community fund, etc.) It may be doing well from the perspective of the program staff of a funding agency but poorly from the advisory board of that agency. Precise measurement of success in the context of these environmental impingements is extremely difficult. In order to meet the needs of all energy inputs to the organization, goals and objectives of the organization may need to be stated in broad general terms rather than in precise operational terms as required for measurement in budget and cost effectiveness systems.

The current measurement tools utilized in budgeting and cost effectiveness systems are simply too primitive to encompass the complexities of the environmental component of social welfare organizations. In addition, such systems have not successfully solved the problems involved in evaluating externalities and secondary impacts.⁸ For example, the inclusion of the dollar value of improved school performance for a child whose father is in treatment for alcoholism would not be considered under current existing budget and cost effectiveness systems. Yet such externalities may be more valuable to the society than whether the father ultimately quits drinking.

⁸See Robert H. Haverman and Julius Margolis (6), for a discussion of externalities and secondary impacts.

In most all social welfare organizations, the raw material has an independent life from the organization (Goffman's "total institutions" notwithstanding [4]). Therefore, other factors external to the organization may have greater impact on the raw material than the organization which complicates measurement problems considerably.

SUMMARY AND IMPLICATIONS

This paper has demonstrated how budget and cost effectiveness systems are more adaptable to production organizations than they are to social welfare organizations. Budgeting and cost effectiveness systems are highly dependent upon precise measurement of organizational inputs, organizational processing, and organizational outputs. Unique organizational characteristics of social welfare organizations including the nature of their raw material, technology, and environment present considerable complications for accomplishing this measurement.

The fit of constructs with the type of organization these constructs are applied to should be a primary consideration in the application of budget and cost effectiveness systems. To significantly change social welfare organizations as an attempt to make them fit budgeting and cost effectiveness systems would not appear to be fruitful in the long run, for regardless of the assumptions of the system the raw material will remain reactive unpredictable humans, the technology will require discretion on the part of the worker, and environmental constraints on energy inputs will remain complex. Therefore, budget and cost effectiveness systems should be adapted and refined to fit the type of organization. In the meantime, cost effectiveness measurement should be understood as barely primitive. Pretensions of pure objectivity and scientific evaluation should be squelched. Measurement research might include client perceptions, identifiable behavior changes, identification by client and agency of externalities and secondary impact, and self evaluation and peer evaluation by agencies. Recipients of funds from funding agencies should be allowed to demonstrate their effectiveness in a variety of ways in addition to their current budget and cost effectiveness system. It may well be that if budget and cost effectiveness systems are not adapted to the uniqueness of the organization to which they are applied, the raw material of those organizations, the technicians of the primary technology in those organizations, and the environment (third party purchasers and others) will "cost-out" the death of such systems and be willing to pay the price.

⁹This is similar concern as that expressed about the effectiveness of social work practice in an analysis of social work research by Helen Harris Perlman (15).

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