

Is Cost Analysis Underutilized in Decision Making?

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Is cost analysis underutilized in decision making? Research suggests it is. According to several authors, the use of cost analysis is still infrequent. Further, where cost analysis is conducted, it is often poorly done because many evaluators lack the necessary technical skills (Levin & McEwan, 2001).

Some reasons for the underutilization of cost analysis center on difficulties associated with its use. These include: (1) unfamiliarity with the necessary analytical procedures; (2) political or moral controversies in assigning values to input/outcome measures (e.g. determining the appropriate discount rate); (3) determining the extent to which benefits identified and quantified have been caused by the program); (4) determining who incurs the benefits and costs; (5) determining when benefits and costs occur; (6) inability to quantify all costs and benefits; (7) lack of resources to conduct long-term follow up studies; (8) lack of data; (9) data in a form incomprehensible to the evaluator; and (10) difficulties with separating program developmental costs from operating costs (Alkin & Solomon, 1983; Andrieu, 1977; Berk & Rossi, 1990; Fitzpatrick et al., 2004; Rossi et al., 2004; Sewell & Marczak, 1997).

The current underutilization of cost analysis should seriously concern evaluators, policy makers and society at large. Informed decisions require information on both costs and effects. Given that the ultimate societal goal is to optimize the use of scarce resources, cost analysis can play an important role in national planning. The question is “Can anything be done to raise awareness on this issue?” Yes! Leading

evaluation textbooks and journals must take a more active role in promoting cost analysis. In addition, graduate programs and certificate programs in evaluation need to incorporate cost analysis in their course requirements. If evaluators are not exposed to such techniques and trained to use them, they will never be confident they are conducting cost analysis competently

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