

Financial and Managerial Accounting in Nonprofit Organisations: State of the art and some further directions

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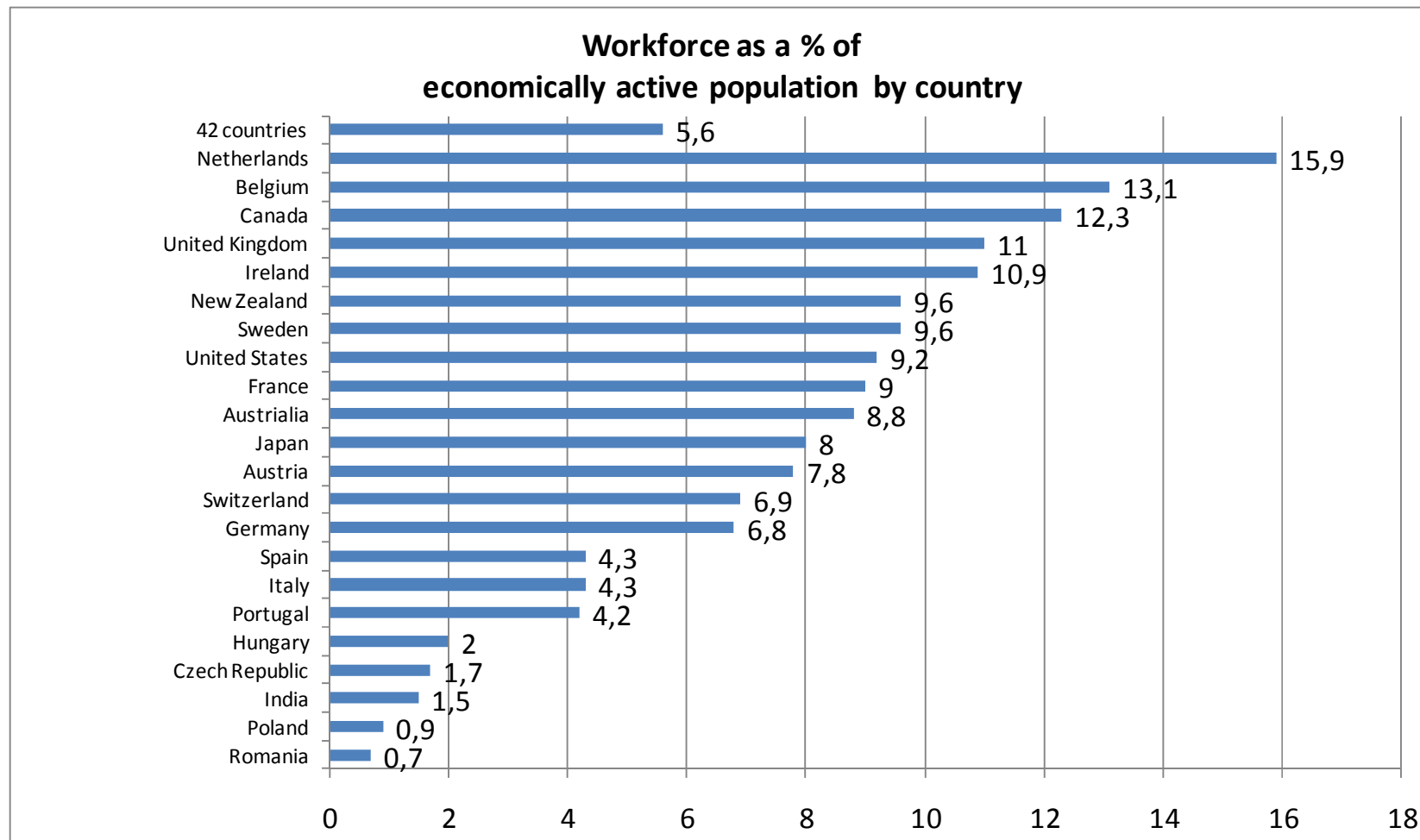
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Agenda

- I. Introduction
- II. Financial Accounting and beyond
- III. Managerial Accounting
- IV. Directions for further research

I. Introduction

Size of the Nonprofit Sector



Source: Salamon (2010): 188

International classification of nonprofit organizations

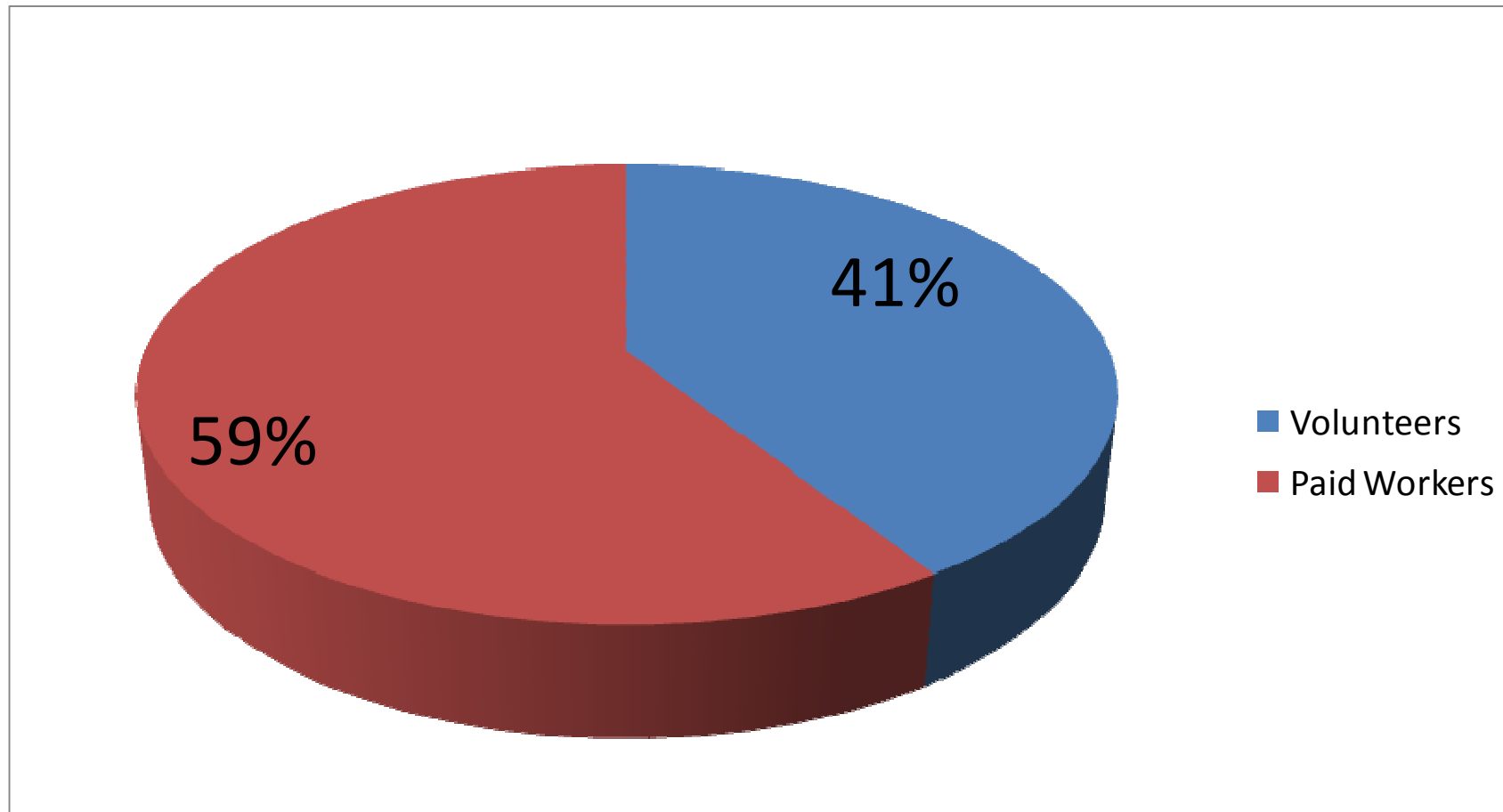
Code	Field	Code	Field
1	Culture and recreation	7	Civic and advocacy
2	Education and research	8	Philanthropic intermediaries
3	Health	9	International
4	Social services	10	Religious congregations
5	Environment	11	Business and professional Unions
6	Development and housing	12	Not elsewhere classified

Patterns of Civil Society Sector Structure

Model	Dimension			
	Workforce Size	Volunteer Share	Government Support	Philanthropic Support
I. Liberal	Large	Medium-high	Medium	Medium-high
II. Welfare Partnership	Large	Low-medium	High	Low
III. Social Democratic	Large	High	Medium	Medium
IV. Statist	Small	Low	Low	Medium-high
V. Traditional	Small	High	Low	Medium-high

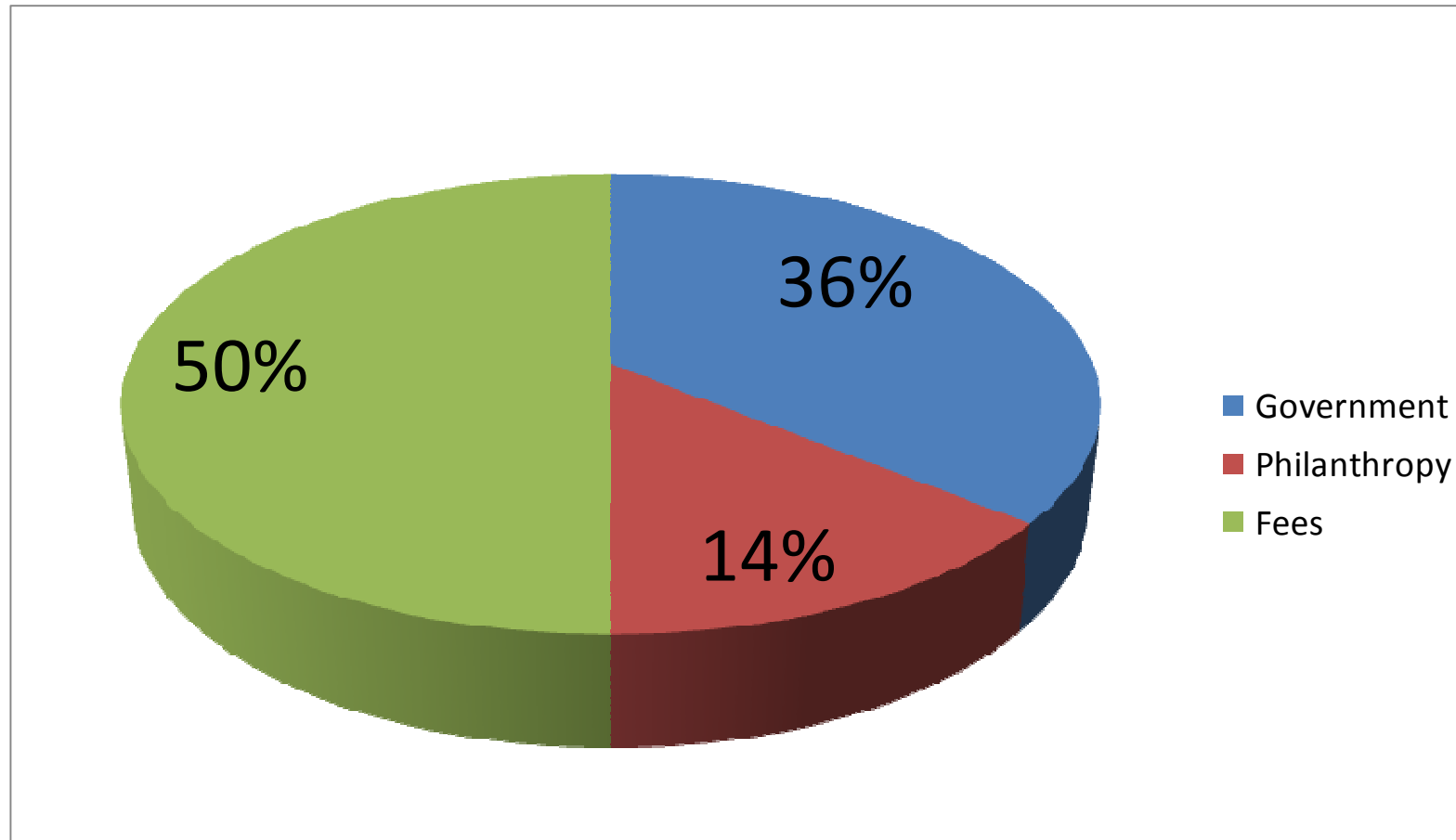
Source: Salamon, Sokolowski and Associates. Global Civil Society: Dimensions of the Nonprofit Sector (2010)

NPO sector: paid vs. volunteer labour, 42 countries



Source: Salamon (2010): 189

Sources of NPOs revenues (34 countries average)



Source: Salamon (2010): 188

II. Financial Accounting and beyond

The Past

- Conspiracy of silence (Leat 1990)
- Lack of transparency as one out of four voluntary failures (Salamon et al. 1999)
- Low mandatory reporting obligations with a low level of compliance (Nicholls 2009)
- Traditionally cash based reporting and board approved annual budgets

Deficits in IRS Forms

- missing information on accounting principles and accounting methods
- limited or no information on revenues/expenditures of restricted funds
- use of an undetermined basis for allocating joint costs to programmes
- zero reporting of fundraising expenses in donation receiving nonprofits
- zero reporting of administrative expenses
- significant amount of total revenues, expenses assets and liabilities reported under the non-descript category „others“
- missing cash flow statements
- missing information whether the statement is audited and received a qualified/unqualified opinion

In recent years

- Reforms in rules and regulations concerning financial transparency in many states
- Reform drivers
 - Government commissions and standard setting bodies, professional associations, funders/foundations, financial institutions, auditing firms, code of conduct issuing bodies in the NPO sector
- Topics:
 - from cash towards accrual accounting in selective fields
 - Expansion of the obligatory financial reporting elements
 - Strengthening of the true and fair view presentation
 - Information on accounting policies and accounting principles
 - Additional information on mission, effectiveness/performance, board members, governance mechanism, service accomplishments reporting ¹²

(Selective) empirical studies

- International comparison:
 - Torres/Pina (2003): comparison of financial accounting in four countries: CAN, UK, US, Spain

- Quality of financial reporting
 - Jegers/Houtman (1993): Errors in hospitals' financial statements
 - Kristhan/Schauer (2000): Audit quality and compliance index in eight US NPOs
 - Kristhan/Yetman/ Yetman (2006): (extensive) misreporting in US NPOs
 - Verbruggen/Christiaens/Milis (2010): Compliance of Belgium NPOs with reporting standard based on a compliance index

(Selective) empirical studies

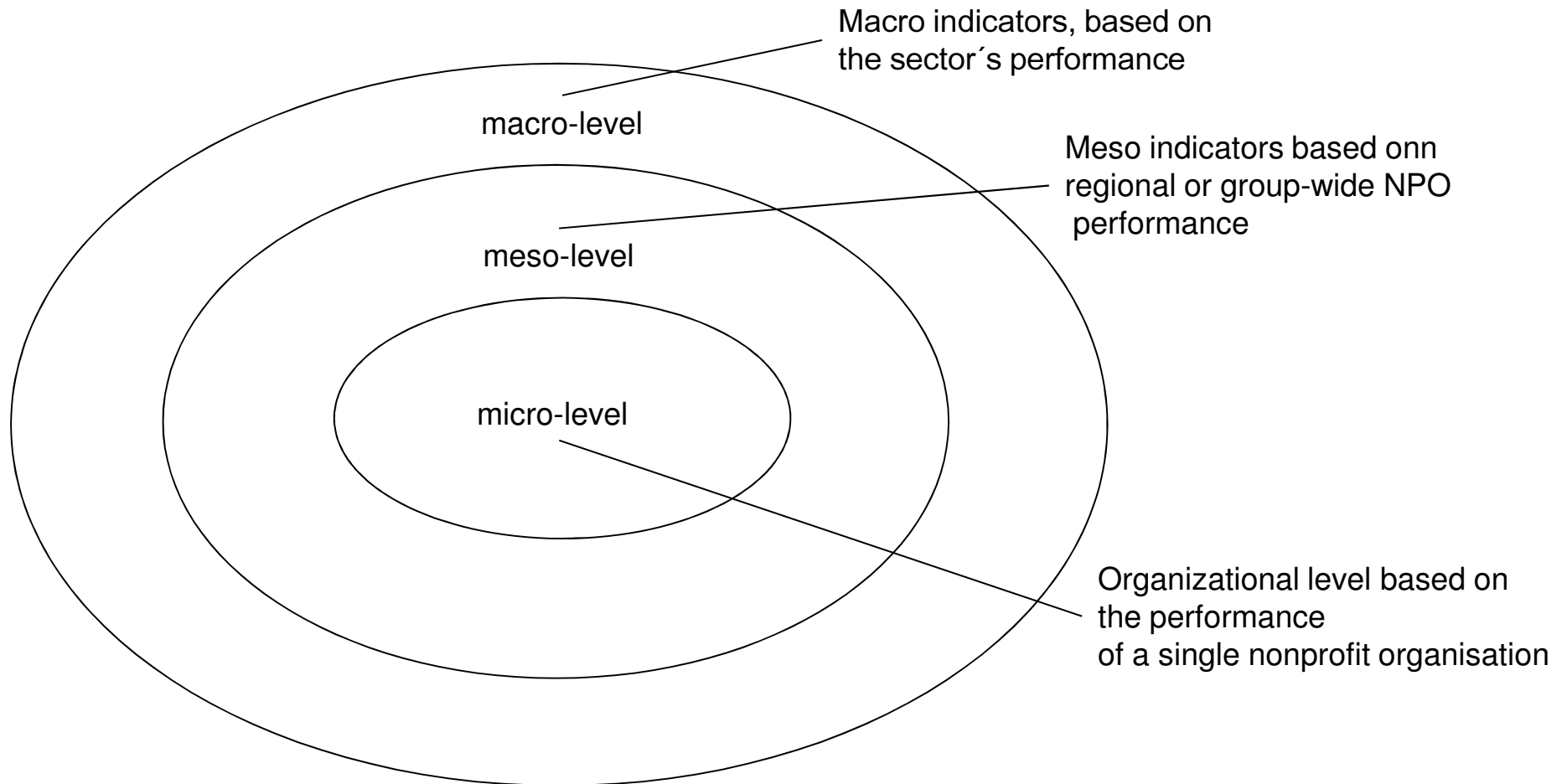
■ Role of stakeholders

- Yetman/Yetman (2004): stakeholder impact on reporting quality
- Benjamin (2008): Three case studies focussing on disclosure as a negotiating process between funders and NPOs

■ Reporting and decision making

- Parson (2007): Voluntary disclosure and donor decisions
- Abraham (2008): Single case study about the lack of decision relevance of financial information

Levels of NPO-Reporting



Approaches towards performance reporting

Micro level: e.g

- Cost benefit analysis
- Social return on investment
- Expanded Value Added Statements (e.g. Mook 2007)
- Blended Value Accounting (Nicholls 2009)

Meso level: ? (Stakeholder Value Accounting)

Macro level:

- CIVICUS Diamond
- Nonprofit Sector Accountability Index

Accountability mechanism

Basic questions:

- To whom? (external: upward or downward, internal)
- For what? (finance, governance, performance, mission)
- Organizational response (compliance or strategic)
- How? (tool or process)

Multiple Purposes of Accountability

- Accountability as a compliance instrument, e.g. external reporting/disclosures
- Accountability as an evaluation and performance assessment tool
- Accountability as a form of sector's self regulation/ signaling instrument
- Accountability as a participatory endeavour
- Accountability for internal purposes (e. g. internal governance, learning, strategy implementation)

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III. Managerial Accounting

The past

- Basic cost accounting and management control systems / under-developed strategic management accounting
- Governmental and funders regulations for price calculation
- Performance measurement beyond programme evaluation as an emerging topic of the 1990s
- Balanced scorecard hype in this decade
- Special focus on management accounting in the health care sector

Issues of Managerial Accounting in Health Care

Organisational challenges

- Complexity of core operating processes
- Control by dominant professionals
- Multiple/ conflicting goal sets imposed by external stakeholders
- Highly politicized environments
- Nonprofit ownership and monetary incentives

Selective quantitative empirical studies: Performance measurement

Hall et al. (2003)	Programme evaluation practices in 1965 voluntary organisations and 322 funders across Canada
Zimmermann/Stevens (2006)	Use of performance measurement in 149 South Carolina NPOs
Greiling (2009)	Performance measurement systems (organizational level) in 343 German health and social service NPOs
Campos et al. (2010)	Programme and project evaluation in 632 Brazilian NPOs
LeRoux/Wright (2010)	Types of performance measures and impact to strategic decision making in 314 social services NPOs in the US
Salamon et al. (2010)	Performance measurement on the programme level, in 417 NPOs in the US

Balanced Scorecard

- plethora on normative proposals
 - first generation: applicability to NPOs in general
 - second generation: area-specific approaches

- many best practice single case studies: e.g. Mayo Clinic, Special Olympics, Duke Children's Hospital, Boston Lyric Opera, New Profit Inc. etc.

- very few empirical studies beyond best practice stories:
 - Imandar and Kaplan (2002): 9 NPOs managers
 - Control Management Consultants (2002): few questions to the Balanced Scorecard; $n = 92$; 2% Balanced Scorecard implementation
 - Greiling (2010): 20 German social and health care NPOs qualitative multi-case study

IV. Directions for further research

Missing Topics (1/3)

General Topics

- International comparative empirical studies
- Design of the financial and managerial accounting system and
 - the pattern of civil society
 - Cultural aspects
 - Cross sector studies
 - measuring the stakeholder value added
- Extension of reference theories

Missing Topics (2/3)

Financial Accounting

- International Nonprofit Sector Accounting Standards and conceptual frameworks
- Generally Accepted Accountability Principles
- Proposals for validating the value added of nonprofits on a meso- and macro level

Missing Topics (3/3)

Managerial Accounting

- Strategic management accounting beyond the BSC
- Performance measurement for mission accomplishments and mission drifts
- Management control systems and organisational learning as enabler for innovation
- Design of performance management systems in professional service organisations beyond the hospital sector
- Stakeholder value creation

Thank you for your attention
I am looking forward to the discussion!

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Back up / additional slides

Civil Society sector sources

Excluding volunteers					Including volunteers			
	Percent share from			Total	Percent share from			Total
Country	Government	Philanthropy	Fees	Millions US\$	Government	Philanthropy	Fees	Millions US\$
Australia	31,2%	6,3%	62,5%	\$19,810	25,4%	23,6%	51,0%	\$24,295
Austria	50,4%	6,1%	43,5%	\$6,262	41,3%	23,1%	35,6%	\$7,643
Belgium	76,8%	4,7%	18,6%	\$25,576	65,9%	18,1%	16,0%	\$29,773
France	57,8%	7,5%	34,6%	\$57,304	33,4%	46,6%	20,0%	\$99,234
Germany	64,3%	3,4%	32,3%	\$94,454	42,5%	36,2%	21,3%	\$142,887
Israel	63,9%	10,2%	25,8%	\$10,947	59,1%	17,0%	23,9%	\$11,842
Italy	36,6%	2,8%	60,6%	\$39,356	30,2%	19,7%	50,1%	\$47,647
Japan	45,2%	2,6%	52,1%	\$258,959	41,5%	10,7%	47,8%	\$282,314
Netherlands	59,0%	2,4%	38,6%	\$60,399	46,1%	23,9%	30,1%	\$77,391
Spain	32,1%	18,8%	49,0%	\$25,778	25,2%	36,3%	38,5%	\$32,833

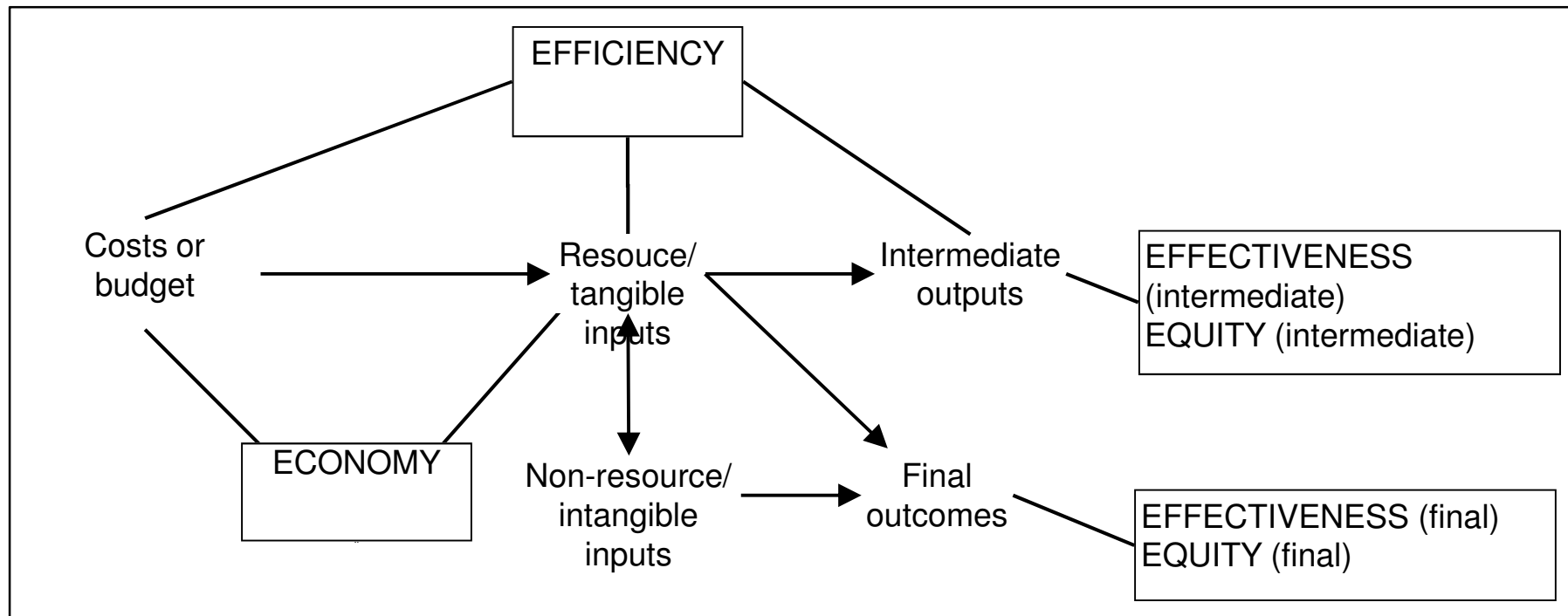
Source: Lester M. Salamon, S. Wojciech Sokolowski, and Associates, Global Civil Society: Dimensions of the Nonprofit Sector, Volume Two (Bloomfield, CT: Kumarian Press, 2004)

State of accountability- the past

“I suggest that at present voluntary organisations ... manage multiple accountabilities by working in the spaces between theory and practice of accountability. The systems works because funders have little time and insufficient knowledge to put accountability into practice. The combination of the lack of time and other resources, lack of appropriate standards of evaluation and acceptance of the principle (if not the implications) of risk-taking creates the conditions for a conspiracy of silence. And the silence is only relatively rarely broken because ... the reality is that the spending on voluntary organisations remains marginal in relation to the total departmental expenditures .“

Source: Leat (1990): 151-152

Kendall's and Knapp's production of welfare model



Source: Kendall/Knapp (2000): 115

Performance criteria and indicator sets

Economy

- Resource inputs
- Expenditures
- Average costs

Effectiveness (service provision)

- Final outcomes
- Recipient satisfaction
- Output volume
- Output quality

Choice/pluralism

- Concentration
- Diversity

Efficiency

- Intermediate output efficiency
- Final outcome efficiency

Equity

- Redistributive policy consistency
- Service targeting
- Benefit-burden ratios
- Accessibility
- Procedural equity

Participation

- Membership/volunteers
- Attitudes and motivation

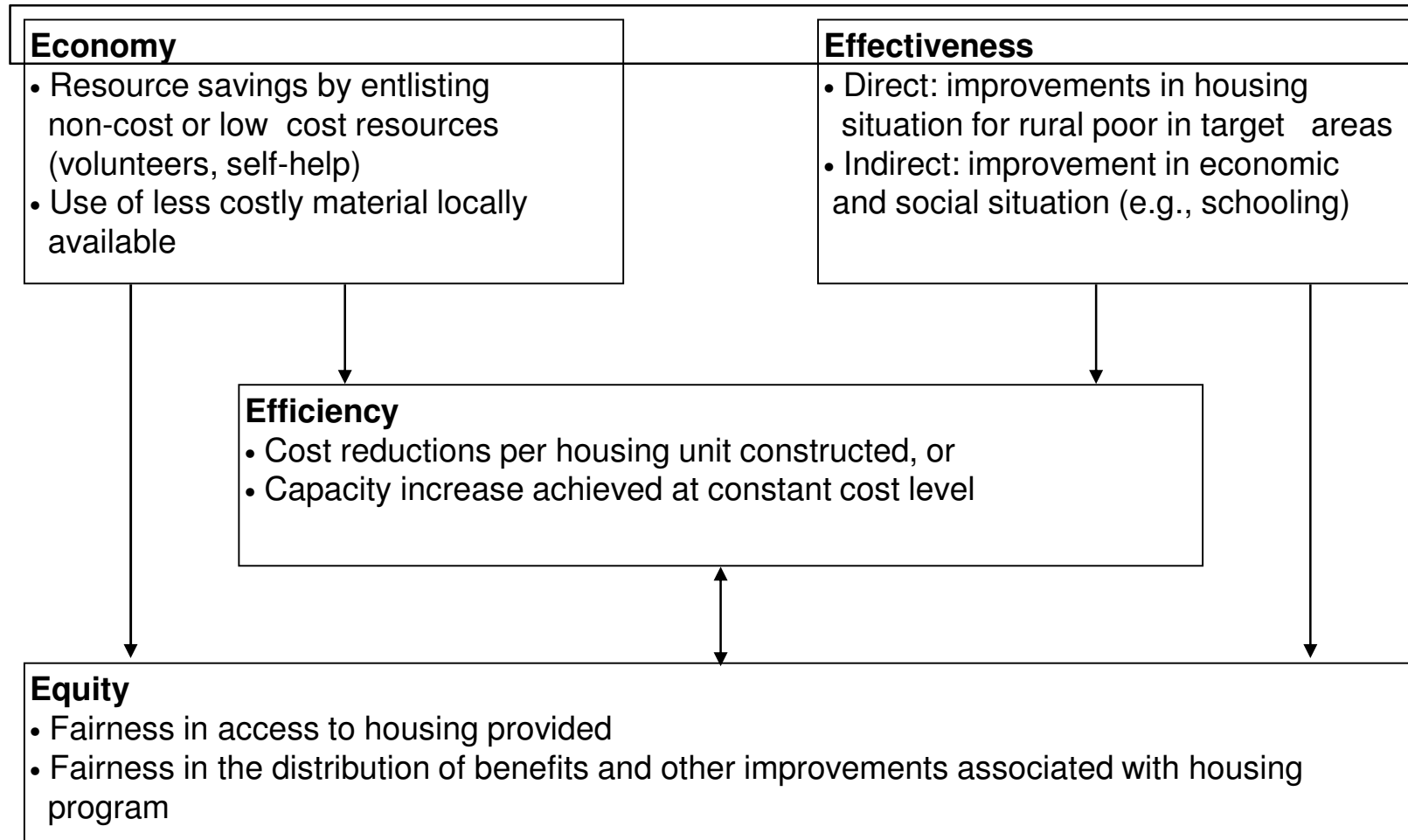
Advocacy

- Advocacy resource inputs
- Advocacy intermediate outputs

Innovation

- Reported innovations
- Barriers and opportunities

Relations among evaluation criteria: low-cost housing provision



Characteristics of accountability mechanism

Accountability How? (tool or process)	Accountability to Whom? (upward, downward, internal)	Accountability for What? (finances, governance, performance, mission)	Inducement (internal or external)	Organizational Response (compliance or strategic)
Disclosures / Reports (tool)	Upwards to funders and oversight agencies Downwards (to a lesser degree) to clients or members who read the reports	Finances and performance, depending on what is being reported	Legal requirement Tax status Funding requirement (external threat of loss of funding or tax status)	Primarily compliance, with a focus on letter of law and short-term results
Evaluation and Performance Assessment (tool)	Upwards to funders Significant potential for downwards from nonprofits to communities and from funders to nonprofits	Performance, often short-term outputs but with increasing emphasis on impacts	Funding requirement (external) Potential to become a learning tool (internal)	Primarily compliance at present, with possibilities for longer-term strategic assessments

Characteristics of accountability mechanism

Self-Regulation (tool and process)	To nonprofits themselves, as a sector <ul style="list-style-type: none"> To donors as a seal of good housekeeping 	Finances and governance, depending on what the codes or standards emphasize	Erosion of public confidence due to scandals and exaggeration of accomplishments (external loss of funds; internal loss of reputation)	Strategic if it raises industry standards and enables policy voice Compliance if standards are weak and adopted pro-forma
Participation (process)	Downwards from nonprofits to clients and communities <ul style="list-style-type: none"> Internally to nonprofits themselves Significant potential downwards from funders to nonprofits 	Depends on the purpose of participation, e.g., whether it is seek input on implementation (performance) or to influence agendas (governance)	Organizational values (internal) Funding requirement (external)	Primarily compliance if participation is limited to consultation and implementation Strategic if it increases power of clients in influencing nonprofit agendas, or increases power of nonprofits in influencing funders
Adaptive Learning (process)	<ul style="list-style-type: none"> To nonprofits themselves Downwards and upwards to stakeholders 	<ul style="list-style-type: none"> Mission and performance 	<ul style="list-style-type: none"> Improve performance in order to achieve mission (internal) 	<ul style="list-style-type: none"> Strategic if it focuses attention and resources on how to solve social problems

Issues of Management Accounting in Health Care (2/3)

Research topics

Behavioural theories

- Health care reforms as antecedents for changes in management accounting practices
- Design and effects of management accounting systems in health care organisations

Critical theories

- Management accounting as organisational technique
- Functions of Management Accounting practices

Issues of Management Accounting in Health Care (3/3)

Economic theories:

- Estimates of health cost functions and cost drivers
- Information biasing as a challenge
- Comparative performance of public, private and nonprofit hospitals
- Impacts of market structure on market conduct