

Routledge Studies in Accounting

COST MANAGEMENT FOR NONPROFIT AND VOLUNTARY ORGANISATIONS

Zahirul Hoque and Tarek Rana



‘Focussing on today’s socially and economically important non-profit and voluntary sector, this invaluable research text addresses its crucial cost management practices. The authors deliver important intelligence concerning strategic management and innovation for meeting organizational performance demands in a resource constrained and competitive environment.’

Distinguished Professor Lee Parker, *RMIT University,
Melbourne and Glasgow University, Scotland*

‘Accounting in not-for-profit and voluntary organisations, an increasingly important sector, has been neglected, despite effective cost management and external accountability being vital to their operations. This monograph reviews work and presents research in this field that will be useful to practitioners and academics alike.’

Trevor Hopper, *Professor Emeritus of Management
Accounting, University of Sussex, UK*

‘The business of not-for-profits is becoming more complex and sustainability more challenging. This book is important because the sector needs to consider its cost base and financial sustainability in a world where demand for support and services is ever increasing, and resources are ever diminishing in real terms. A very important contribution indeed from Zahirul Hoque and Tarek Rana.’

Professor David Gilchrist, *University of Western Australia*

‘In an era where the non-profit sector is increasingly under pressure to become more market-efficient, the magnitude of the necessity to better manage their costs is exacerbated. With much of the focus of historical research focused on profit-maximising entities, this book is a welcome addition to the literature to help guide and enlighten non-profit management to improved cost management practices.’

Dr Nicodemo La Rosa, *CA, CPA, Chief Financial
Officer, arbias Ltd, www.arbias.org.au*



Taylor & Francis

Taylor & Francis Group

<http://taylorandfrancis.com>

Cost Management for Nonprofit and Voluntary Organisations

In recent years, nonprofit and voluntary organisations have faced challenges and unanticipated pressures as a result of increased competition for funding, technological advancements, the need to comply with government regulations, and increased social and community expectations regarding greater accountability and transparency.

Cost accounting and cost management tools are considered to be a means of providing adequate and quality information for management control for all sorts of organisations, including nonprofits. Using empirical evidence from the Australian nonprofit sector, this research monograph offers insight into how nonprofit and voluntary organisations control and manage the costs of their operations and projects through cost accounting and cost management tools.

The book will be of benefit to a range of stakeholders in the sector, including financial and management accountants, professional accounting bodies, the government, policymakers, academics, consultants and operational managers.

Zahirul Hoque, PhD, is a Professor of Management Accounting/Public Sector in the Department of Accounting and Data Analytics, and Director of the Centre for Public Sector Governance, Accountability and Performance in the La Trobe Business School of La Trobe University, Melbourne, Australia. He is the founding Editor-in-Chief of the *Journal of Accounting & Organizational Change*. He is a Fellow of CPA Australia and the Institute of Cost and Management Accountants of Bangladesh (ICMAB).

Tarek Rana, PhD, is a Senior Lecturer in Accounting at RMIT University, Melbourne, Australia. He is a Fellow of CPA Australia and a member of the Chartered Institute of Management Accountants (CIMA), Chartered Accountants of Australia and New Zealand (CAANZ) and Chartered Global Management Accountants (CGMA).

Routledge Studies in Accounting

27. Interventionist Management Accounting Research

Theory Contributions with Societal Impact

Jouni Lyly-Yrjänäinen, Petri Suomala, Teemu Laine, and Falconer Mitchell

28. Accounting, Innovation and Inter-Organisational Relationships

Martin Carlsson-Wall, Håkan Håkansson, Kalle Kraus, Johnny Lind, and Torkel Strömsten

29. A History of Corporate Financial Reporting

John Richard Edwards

30. Public Sector Accounting, Governance and Accountability

Experiences from Australia and New Zealand

Edited by Robyn Pilcher and David Gilchrist

31. Managerial Accountant's Compass

Research Genesis and Development

Gary R. Oliver

32. Institutions and Accounting Practices after the Financial Crisis

International Perspective

Edited by Victoria Krivogorsky

33. Corporate Environmental Reporting

The Western Approach to Nature

Leanne J Morrison

34. Cost Management for Nonprofit and Voluntary Organisations

Zahirul Hoque and Tarek Rana

For a full list of titles in this series, please visit <https://www.routledge.com/Routledge-Studies-in-Accounting/book-series/SE0715>

Cost Management for Nonprofit and Voluntary Organisations

Zahirul Hoque and Tarek Rana

First published 2020
by Routledge
2 Park Square, Milton Park, Abingdon, Oxon OX14 4RN

and by Routledge
52 Vanderbilt Avenue, New York, NY 10017

Routledge is an imprint of the Taylor & Francis Group, an informa business

© 2020 Zahirul Hoque and Tarek Rana

The right of Zahirul Hoque and Tarek Rana to be identified as authors of this work has been asserted by them in accordance with sections 77 and 78 of the Copyright, Designs and Patents Act 1988.

All rights reserved. The purchase of this copyright material confers the right on the purchasing institution to photocopy pages which bear the photocopy icon and copyright line at the bottom of the page. No other parts of this book may be reprinted or reproduced or utilised in any form or by any electronic, mechanical, or other means, now known or hereafter invented, including photocopying and recording, or in any information storage or retrieval system, without permission in writing from the publishers.

Routledge is the world's leading publisher of social sciences and humanities books. Peer review is a fundamental element of Routledge's publication process for research-based books. Independent scholarly referees are appointed to provide anonymous independent advice on the content, quality and potential market for a finished book based on the original book proposal. This feedback is shared with authors, enhanced by insights from an in-house subject specialist Editor in order to develop the volume's content. Edited volumes are compiled by expert volume editors and undergo detailed guidance, feedback and revision from them prior to inclusion in the published volume.

Trademark notice: Product or corporate names may be trademarks or registered trademarks, and are used only for identification and explanation without intent to infringe.

British Library Cataloguing-in-Publication Data

A catalogue record for this book is available from the British Library

Library of Congress Cataloging-in-Publication Data

Names: Hoque, Zahirul, author. | Rana, Tarek, author.

Title: Cost management for nonprofit and voluntary organisations / Zahirul Hoque and Tarek Rana.

Description: Milton Park, Abingdon, Oxon ; New York, NY : Routledge, 2020. | Series: Routledge studies in accounting | Includes bibliographical references and index.

Identifiers: LCCN 2019028181 (print) | LCCN 2019028182 (ebook) |

ISBN 9780367179878 (hardback) | ISBN 9780429059056 (ebook)

Subjects: LCSH: Nonprofit organizations--Finance. | Nonprofit organizations--Accounting.

Classification: LCC HG4027.65 .H67 2020 (print) | LCC HG4027.65 (ebook) | DDC 658.15/52--dc23

LC record available at <https://lcn.loc.gov/2019028181>

LC ebook record available at <https://lcn.loc.gov/2019028182>

ISBN: 978-0-367-17987-8 (hbk)

ISBN: 978-0-429-05905-6 (ebk)

Typeset in Times New Roman
by Swales & Willis, Exeter, Devon, UK

Zahirul Hoque wishes to dedicate this book to his late parents, Idris Mia and Afia Khatun, who unconditionally loved him until their last breath. He also acknowledges his wife, Shirin's, endless patience and love throughout his entire career.

Tarek Rana dedicates this book to his wife, Afsana Siddique; sons, Sabir Ahmed and Jabir Ahmed; and parents, Kabir Ahmed and Ranuara Begum, in recognition of their unconditional love, boundless inspiration and continuous support throughout his career.



Taylor & Francis

Taylor & Francis Group

<http://taylorandfrancis.com>

Contents

<i>List of figures</i>	x
<i>List of tables</i>	xi
<i>About the authors</i>	xiii
<i>Preface</i>	xv
<i>Acknowledgements</i>	xvii
<i>List of abbreviations</i>	xviii
1 Background, introduction and aims	1
2 The nonprofit and voluntary sector in Australia	11
3 Accountability and governance mechanisms for nonprofit organisations: an international perspective	36
4 Cost management and accounting research literature: an overview	49
5 Theory of cost management and research propositions	67
6 Study design and methods	80
7 Survey results	92
8 Findings from case studies	117
9 Conclusions and implications	129
<i>Appendices</i>	134
<i>Glossary</i>	167
<i>Index</i>	171

Figures

7.1	Funding sources of Australian nonprofit and voluntary organisations	94
7.2	Location of surveyed organisations	95
7.3	Extent to which the cost system provides adequate information to management	98
7.4	Cost accounting tools used by nonprofit and voluntary organisations	100
7.5	Users of costing systems in Australian nonprofit and voluntary organisations	105
7.6	Mean difference between actual supply of information and perceived need for information	111
7.7	Organisational performance	115

Tables

2.1	Number of nonprofit organisations in Australia	17
2.2	Gross value added by the NPI to the Australian economy	18
2.3	NPI Income by source 2012–2013	18
2.4	NPI Income by ICNPO Group 2012–2013	19
2.5	NPI use of income 2012–2013	19
2.6	NPI use of income by ICNPO Group 2012–2013	20
2.7	NPI employed persons 2012–2013	21
2.8	Annual hours of voluntary work 2012–2013	21
2.9	NPI voluntary work and imputed value of services 2012–2013	22
2.10	ACFID Code of Conduct in comparison to the ACNC Standards of Governance	27
4.1	Frequency distribution (number) of articles published on costing by journals	52
4.2	Frequency distribution of articles on costing published in journals by research topics	53
4.3	Frequency distribution of articles on costing published in journals by research settings	54
4.4	Frequency distribution of articles on costing published in journals by theory	55
4.5	Frequency distribution of articles on costing published in journals by research methods	56
4.6	Frequency distribution of articles on costing published in journals by data analysis technique	56
7.1	Organisational profile	93
7.2	Profile of participants	96
7.3	Costing systems background	97
7.4	Summary of costing system features	98
7.5	Cost system inputs	100
7.6	Types of costing system in use	102
7.7	Cost reporting	104
7.8	Users of cost system information	104
7.9	Uses of cost system information	106
7.10	Cost systems functionality elements	107

7.11	Rationales (reasons) for cost system adoption/usage	108
7.12	Perceived cost systems information need	109
7.13	Actual supply of information by cost systems	110
7.14	Mean differences between perceived needs and actual supply of information	111
7.15	Cost systems integration: To what extent is the cost system integrated with other business processes?	112
7.16	Panel A: Perceived benefits of the cost system: What are the most important benefits accruing to your organisation as a result of using cost accounting systems? Panel B: Problems with cost accounting: What are the most significant cost accounting problems, which you feel your organisation needs to address?	113
7.17	Organisational performance: Based on your experience(s) with using costing information in your organisation please indicate to what extent the following are demonstrated	114

About the authors



Dr Zahirul Hoque PhD (Manchester), MCOM (Dhaka), BCom-Hons (Dhaka), FCPA, FCMA is a Professor of Management Accounting/Public Sector at La Trobe Business School, and Director of the Centre for Public Sector Governance, Accountability and Performance in the La Trobe Business School of La Trobe University. His prior positions were Associate Dean (Research) in the Faculty of Law and Management of La Trobe University, Chair in Accounting at

Deakin University, Head of School of Business at Charles Darwin University, Senior Lecturer in Accounting at Griffith University, Lecturer in Accounting at the Victoria University of Wellington, and Lecturer in Accounting at Dhaka University, Bangladesh. He was also a visiting professor at Babson College (US), Queensland University of Technology (Australia), Cattolica University (Italy), Reutlingen University ESB Business School (Germany), University of Manchester Alliances Business School (England), American International University (Bangladesh), Nanyang Technological University (Singapore), King Fahd University of Petroleum and Minerals (Saudi Arabia), University of Malaya (Malaysia) and Sunway University (Malaysia). Professor Hoque obtained his PhD from the University of Manchester Business School in the UK. He is a fellow of CPA Australia and the Institute of Cost and Management Accountants of Bangladesh. He is the Founding Editor-in-Chief of the *Journal of Accounting & Organizational Change*. His research interests include management accounting and performance management, public sector accounting and management, accounting in developing economies, NGO and nonprofit accounting, accountability and performance, and interdisciplinary research on management control systems. His research addresses contemporary issues and draws links across several areas of organisational activity—particularly accounting, accountability, cost and risk management, and their interrelationships with performance management and governance in the public and private sectors.



Dr Tarek Rana PhD (UNSW), MBA (Saskatchewan), MCOM (Dhaka), BCom-Hons (Dhaka), FCPA (AU), CA (ANZ), CMA (CIMA), CGMA (AICPA) is a Senior Lecturer in Accounting at RMIT University in Melbourne, Australia. He is a Fellow of CPA Australia and members of the Chartered Institute of Management Accountants (CIMA), Chartered Accountants of Australia and New Zealand (CAANZ) and Chartered Global

Management Accountants (CGMA). Dr Rana teaches and researches in management accounting, performance measurement, risk management and strategy areas. He has received competitive grants for a few research projects in these areas with a specific focus on public and not for profit (NFP) sector organisations. Dr Rana's current research focuses on the development and implementation of performance and risk management techniques designed to create long-term social and economic impact and how these management accounting techniques become implicated in the operations of public and NFP sector organisations.

Preface

The management accounting literature has firmly established that contemporary cost management and accounting tools—such as activity-based costing, target costing and product lifecycle costing—have provided useful information for managerial decision making and performance management in rapidly changing manufacturing organisations. However, cost accounting research to date has primarily been located in manufacturing settings, while costing in nonprofit sectors is a vastly under-researched subject that deserves far more scholarly attention, given the nonprofit sector's product and service diversity and complexity in business models. This study aims to fill this gap in the literature.

We examine how nonprofit and voluntary entities manage operation costs through the adoption and use of cost accounting systems. More specifically, we investigate the relationship between cost system design, managers' evaluations of the relevance and usefulness of cost data, strategy, funding sources and legislative requirements. This research monograph presents our findings. This book will cover the following key topics:

1. The current state of cost accounting practices in the Australian nonprofit sector.
2. How nonprofit entities determine the costs associated with their projects and programs.
3. How current costing practices relate to strategic choices and decision making purposes in the nonprofit sector.
4. How external factors—specifically, funding uncertainty and mandated legislative requirements for cost accounting data—can influence the design and use of cost accounting data in nonprofit entities.

This book will advance the management accounting science by disseminating knowledge on how not-for-profit organisations measure and allocate cost to create strategic and operational values. The new knowledge of costing practices in today's complex and diversified service-oriented contexts of the not-for-profit sectors will provide enhanced management control systems and facilitate the strategic decision making process and performance measurement by producing comprehensive capability that supports planning, control and decision making.

Audience

The findings of this research hold significance for both professional management accountants and management accounting research scholars. This project adds to the current body of knowledge on how organisations in the nonprofit sector determine and allocate the cost of various community development projects when making strategic decisions and assessing performance. This study also adds to the scholarship on best practices in contemporaneous settings.

The findings presented here hold relevance for a range of stakeholders, including management accountants, management accounting professionals, government policymakers, academic scholars and operational managers in the nonprofit sector. Also, this research monograph can be included in professional development materials for professional accountants, including CPA, ACCA, CA and CIMA members.

Research support

We gratefully acknowledge the financial support for this project provided by the Chartered Institute of Management Accountants (CIMA), United Kingdom. Moreover, La Trobe University provided logistical support and time away from work for the researchers to complete the study.

Acknowledgements

We built this research monograph based on our field research undertaken within the Australian nonprofit and voluntary sector. This research was funded by the Chartered Institute of Management Accountants' (CIMA) General Trust Fund, The Helicon, One South Place, London EC2M 2RB, United Kingdom (Project Number R523, 2017/2018). We wish to acknowledge the following CIMA panel members, who provided insightful reviews on our proposal submitted to CIMA:

Academics

Professor Jan Bouwens—Professor of Accounting at the University of Amsterdam

Professor Antonio Davila—Professor of Entrepreneurship and Accounting and Control at the University of Navarra

Professor Christian Hofmann—Chair for Accounting and Control at the University of Munich

Practitioner

Mel Zuydam—Regional CFO Europe at CH2M

We also wish to acknowledge the support provided by the CIMA's staff, Ms Jacky Pfenning and Ms Jocelyn Turner. We thank Dr MaryAnne Aitken (Director, La Trobe University Research Office), Ms Rita Polemicos (La Trobe University Grants Office) and Ms Marianela Leon Martinez (Research Finance Office, La Trobe University) for their support throughout the grant period. We would also like to thank Dr Terry Clague (Publisher, Routledge: Business, Management & Accounting), Ms Jacqueline Curthoys (Commissioning Editor, Routledge Research), Ms Emmie Shand (Editorial Assistant, Routledge), Ms Kristina Abbotts (Senior Editor, Routledge Economics), and Ms Christiana Mandizha (Editorial Assistant, Routledge), for their continued support and encouragement. Moreover, we are grateful to the anonymous reviewers for their constructive feedback on the book's original proposal. Finally, we thank Ms Shirin Hoque, Mr Mohammad Zakaria Masud, Ms Thiru Thiagarajah and Mr Shaun McFarlane for their assistance during this project.

Abbreviations

AASB	Australian Accounting Standards Board
ABC	Activity-based Costing
ABM	Activity-based Management
ACFID	Australian Council for International Development
ACNC	Australian Charities and Not-for-profits Commission
ACSB	Accounting Standards Board (Canada)
AICD	Australian Institute of Company Directors
ARC	Australian Research Council
ASIC	Australian Securities and Investments Commission
ATO	Australian Taxation Office
BSC	Balanced Scorecard
CCEW	Charity Commission for England and Wales
CCNI	Charity Commission for Northern Ireland
CEO	Chief Executive Officer
CFO	Chief Financial Officer
CPA	Certified Practising Accountants
CIMA	Chartered Institute of Management Accountants
CRA	Canada Revenue Agency
DRG	Diagnosis-related Groups
ERA	Excellence in Research for Australia
FASB	Financial Accounting Standards Board
FRC	Financial Reporting Council
FTE	Full-time Equivalent
GAAP	Generally Accepted Accounting Principles
GDP	Gross Domestic Product
GPFS	General-purpose Financial Statement
HMRC	Her (or His) Majesty's Revenue and Customs
HR	Human Resources
ICNPO	International Classification of Nonprofit Organizations
IFRS	International Financial Reporting Standards
IR	Integrated Reporting
IRS	Internal Revenue Service
IT	Information Technology

KPI	Key Performance Indicator
MAS	Management Accounting Systems
MCS	Management Control Systems
NAC	Not-for-profit Advisory Committee
NDIS	National Disability Insurance Scheme
NFP	Not-for-profit
NFPO	Not-for-profit Organisation
NPI	Nonprofit Institution
NSW	New South Wales
PMS	Performance Measurement System
ORIC	Office of the Registrar of Indigenous Corporations
OSCR	Office of the Scottish Charity Regulator
PBE	Public Benefit Entity
SD	Standard Deviation
SNA	System of National Accounts
SORP	Statement of Recommended Practice
TEQSA	Tertiary Education Quality and Standards Agency
UK	United Kingdom
UN	United Nations
US	United States
VIC	Victoria
XRB	External Reporting Board