
MANAGEMENT CONTROL IN
NONPROFIT ORGANIZATIONS

ANTHONY / YOUNG

FOURTH EDITION

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Management Control in Nonprofit Organizations

ROBERT N. ANTHONY, D.B.A.

*Professor Emeritus
Graduate School of Business Administration
Harvard University*

DAVID W. YOUNG, D.B.A.

*Professor of Accounting and Control
Health Management and Public Management Programs
School of Management
Boston University*

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Preface

Courses for which this text has been designed have existed for about 15 years in many universities. As the field of management control in nonprofit organizations has developed, so have our own ideas about the material in this book. In addition, in the four years that have passed since the Third Edition, a great deal of literature has been published relating to both the management of nonprofit organizations, in general, and *management control* in those organizations, in particular. Finally, several changes have taken place in the environments of most nonprofit organizations, forcing many of them to rethink the way they conduct their operations.

As a result of these developments, several substantive changes have been made in the content of the book. Many chapters have been completely rewritten, and some new chapters and appendixes have been introduced. Organizationally, however, the book continues to be structured into four parts: introduction, management control principles, management control systems, and implementation of management control systems.

Part II has a new chapter (Chapter 5) on the measurement and use of differential costs, and a new appendix (to Chapter 3) on financial accounting principles. We hope these additions will provide readers with some of the basic knowledge necessary for their subsequent analyses of management control systems. In addition, Chapters 3 and 4 have been completely rewritten to add greater substance to the topics of financial accounting and cost accounting, respectively. Finally, Chapter 6 incorporates some marketing considerations into the topic of pricing.

In Part III, we have rewritten the chapter on the structure of the management control system (Chapter 7) to give it a much broader focus; it has been titled "The Management Control Environment" to reflect this

new focus. Additionally, although we still discuss the *process* of management control (Chapters 8–15) by moving systematically through the various stages of the control cycle described in Chapter 1, we have introduced much new material on capital budgeting, evaluation, and reporting. This includes expanding the chapter on performance reporting into two chapters: one on technical aspects (Chapter 13) and one on report design (Chapter 14).

We also have introduced many new cases into this edition. Whereas the Third Edition had 48 cases, this edition has 64. Thirty of them are new to the Fourth Edition. This greater number of cases permits instructors to use the book in courses for either beginning or advanced students, or to explore a particular subject in some depth, beginning on a relatively elementary level and moving to a more advanced one. Moreover, the large number of cases also permits instructors to focus attention on certain types of nonprofit organizations (e.g., health or education).

Use of the Book

This is not primarily a book on accounting. Rather, it is intended for a course on management control problems in nonprofit organizations in general. Such a course is often offered by an accounting department, but the book has also been used in courses offered by economics and finance departments, and by management departments in schools of education, medicine, public health, theology, and public administration.

Although written to apply to all types of nonprofit organizations, including governmental entities, the book can easily be adapted for a course that focuses on a single type, such as government or health care, by the selection of cases appropriate to that type. The book also may be used in short programs designed for managers of nonprofit organizations. The selection of chapters and cases for such programs depends on the nature of the short program. In one type of program the principal topics of the whole book may be discussed; in another type, the focus might be on a specific area of management control, such as programming, budgeting, or the evaluation of performance. Finally, the book may also be used by individual managers in nonprofit organizations as background reading or for reference purposes.

Case Reproduction

The 64 cases included in this book are listed in the index in alphabetical order. The first page of each case indicates its authors' names and affiliations, the copyright holder(s), and the source from which copies of the case may be obtained. For Harvard Business School cases, the first page also indicates the case number. Cases with no copyright designation are in the public domain. With the exception of cases in the public domain, no

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Comments on the text or cases, or new ideas for teaching the cases, are welcomed, and should be sent to Professor Young at the Accounting Curriculum Center, Boston University School of Management.

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We, of course, accept full responsibility for the final product.

Robert N. Anthony
David W. Young

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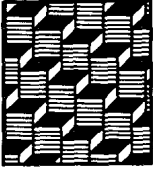


part I

Introduction

Management control in nonprofit organizations—as an academic subject—is relatively new. Until recently, many nonprofit organizations survived on the strength of their mission and their ability to attract increasing amounts of public and private support for their activities. Although there have been gradual changes in the prevailing attitude toward nonprofit management on the part of both professionals (physicians, educators, artists, and so on) and managers (who generally were “former” professionals themselves), it was not until recently that the need was recognized for strong management skills in these organizations.

In this introductory section we discuss both the scope of the material covered and the nature of the organizations to which we intend to apply it. Specifically, Chapter 1 outlines the territory of the field of management control, indicating both what it includes and, equally important, what it does not include. Chapter 2 discusses the nature, size, and service extent of nonprofit organizations.



chapter 1

The Management Control Function

In all organizations, even the tiniest, there is a function called management control. In relatively large organizations this function is rather formal and routinized; in smaller ones it may be quite informal. The function has existed as long as organizations have been in existence, but it has not been the subject of much systematic study and analysis until fairly recently. A landmark book, Chester Barnard's *Functions of the Executive*, which dealt with this as well as other management functions, was originally published in 1938.¹ Not until recent years, however, have principles evolved that are helpful in designing management control systems and in carrying on the management control function.

As is the case with all principles of management, management control principles are tentative, incomplete, inconclusive, vague, sometimes contradictory, and inadequately supported by experimental or other evidence. Some of them will probably turn out to be wrong. Nevertheless, they seem to have sufficient validity so that it is better for managers to take them into account than to ignore them. Most importantly, they seem to work in a considerable number of actual organizations.

Most studies of the management control function have been done in for-profit businesses, and most control techniques were developed in

¹ Chester I. Barnard, *Functions of the Executive*, 30th anniv. ed. (Cambridge, Mass.: Harvard University Press, 1968).