

**MANAGEMENT CONTROL IN NONPROFIT
ORGANIZATIONS**

ANTHONY AND YOUNG

THIRD EDITION

THIRD EDITION

Management Control in Nonprofit Organizations

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Preface

Courses for which this text has been designed have existed for about 10 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 Revised 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, Regina Herzlinger, the second author for the first two editions, has become involved in a variety of new professional activities, many of which are in the nonprofit field, and has decided not to continue as an author; hence a new author's perspective has been introduced to this edition.

As a result of the above developments, several substantive changes have been made in both the organization and content of the book. Organizationally, the book has been structured into four parts: introduction, management control principles, management control systems, and implementation of management control systems. Part II has two new chapters: general purpose financial statements and cost accounting, which we hope will provide readers with some of the basic knowledge necessary for their subsequent analyses of management control systems. While some material from previous editions has been incorporated into these two chapters, by and large they contain completely new material.

Part III makes a clear distinction between the *structure* of a management control system (Chapter 6) and the *process* of management control (Chapters 7–13). In discussing the management control process, we now move systematically through the various stages of the control cycle described in Chapter 1. In making this distinction, we have both reorganized much of the material from the Revised Edition and prepared some new material.

Finally, we have introduced many new cases into this edition. Whereas the Revised Edition had 37 cases, this edition has 48. Thirty-six of them are new to the Third Edition. One advantage of this greater number of cases is the increased choice available to instructors, allowing them 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 larger number of cases also permits instructors to focus more attention on certain types of nonprofit organizations (e.g., health or education) than previously was the case.

Use of the Book

This book is primarily intended for a course on management control problems in nonprofit organizations in general. It is not primarily a book on accounting. 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 selection of cases appropriate to that type. The book may also be used in short programs designed for managers of nonprofit organizations. The selection of chapters 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 also may be used by individual managers as background reading. The first edition was selected by the American College of Hospital Administrators as the outstanding book for this purpose.

Case Reproduction

The 48 cases included in this book are listed in the index in alphabetical order. The first page of each case indicates its authors' names and, for non-Harvard cases, the copyright holder. For cases prepared at the Harvard Busi-

ness School and the Harvard School of Public Health, the copyright holder is Harvard University. No case herein may be reproduced in any form or by any means without the permission of the copyright holder.

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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 Harvard School of Public Health.

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

Robert N. Anthony
David W. Young

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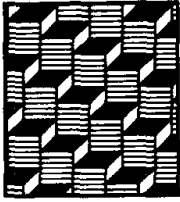
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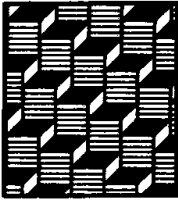


part I

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, etc.) 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

Management Control in General

In all organizations, even the tiniest, there is an activity called management control. In relatively large organizations it generally is rather formal and routinized; in smaller ones it may be quite informal and sporadic. The activity 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 activities, 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 management control activities.

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 process have been done in profit-oriented organizations, and most control techniques were developed in these

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

organizations. Consequently, most descriptions of the management control process tend to assume, usually implicitly but sometimes explicitly, that the process being described is taking place in a business enterprise in which the primary objective is earning profits. This book, by contrast, is a study of management control in nonprofit organizations. Its thesis is that the basic control concepts are the same in both profit-oriented and nonprofit organizations, but that because of the special characteristics of nonprofit organizations, the application of these concepts differs in some important respects.

THE MANAGEMENT CONTROL FRAMEWORK

Before comparing the similarities and differences of management control techniques in nonprofit organizations with those in profit-oriented ones, we shall provide an overview of the general characteristics of management control activities. The purpose of this overview is to place management control in its broader organizational context.

Planning and Control

Two of the important activities in which all managers engage are planning and control. *Planning* is deciding what should be done and how it should be done; *control* is assuring that the desired results are obtained. In most organizations, three different types of planning and control activities can be identified: (1) strategic planning, (2) task control, and (3) management control. Since our focus is on management control, we shall describe the other two types of activities only briefly.

Strategic Planning. Any organization has one or more goals. Generally, senior management decides, or participates in deciding, the general nature of the activities that the organization should undertake in order to achieve these goals. *Strategic planning* is the process of deciding on the goals of the organization and on the broad strategies that are to be used in attaining them. These decisions are made only occasionally and at the highest levels in the organization.

Task Control. At the other extreme are processes that are used in carrying out the day-to-day activities of the organization. These consist of rules, procedures, forms, and other devices that govern the performance of specific tasks. *Task control* is the process of assuring that these specific tasks are carried out effectively and efficiently.

Management Control. Between these two types of planning and control activities is an activity called management control. In this activity the strategies arrived at in the strategic planning process are accepted as given; management control has to do with the *implementation* of these strategies. Manage-