

# Third Sector Accounting Practices: A Case Study in the Metropolitan Area of Recife

Ana Carolina Silva, Ana Beatriz de Souza Gomes Brandão, Michelline Freire Moraes, Zenóbia Maria de Almeida, and Mônica Melo

**Abstract**—It The article discusses results of a study of Recife metropolitan region with the objective of identifying aspects relating management accounting practices used by Third Sector organizations. In a universe of 66 institutions 21 nonprofit organizations (charitable services, schools, professional associations, hostels and scholarships funds) were surveyed. The sample choice was intentional and determined by the spatial location and access to institutional agents. The methodological procedures used were exploratory studies (literature review and use of questionnaires) and documentary research. The database provided by the Ministry of Justice and the Getúlio Vargas Foundation (Map of the Third Sector) was invaluable. It was found that there is no relationship between the level of education of managers and management accounting practices adopted by the surveyed organizations and that there is a relationship between managers' performance time and the use of the set of quality measures in the Organization.

**Index Terms**—Organization of the third sector, accountability, benchmarking.

## I. INTRODUCTION

People always question the difference between companies and nonprofit organizations. States that performance may be the biggest difference as in [1]. Typically, companies define performance narrowly, in other words, as profit. In a Third Sector Organization, profit does not exist, therefore, the quantification of its results becomes a difficult task, but once established, the organization can evaluate their actions not only qualitatively, but quantitatively.

Management proposals for Third Sector Organizations were influenced by managerial concepts from multiple sources - Third Sector: volunteering, advocacy, governance and participatory evaluation; Public Sector: accountability, transparency and capacity building; Private Sector: strategic planning, management by objectives etc.

A Third Sector Organization must be results-oriented, while not having the focus on profit. Its final result should be "measured according to life changes: behavior, circumstances, health, hope, competence or people capacity" like in [2].

From this point of view, the Organization's strategy turns mission and performance into goals. The non-profit organizations typically have difficulty to clearly define their strategy as in [3]. Most of their plans consist of a list of programs and initiatives and not the results that the

organization aims to achieve. Reference [4] shows a research carried out in the state of Rio de Janeiro among leaders of Third Sector Organizations found that the inherent characteristics of these entities and the evolution of their role have profound implications on the type of management practiced by them as in [4]. The survey results showed that such entities do not always have a clear and defined view of their mission, making the establishment of actions, setting goals and objectives and evaluation of results a hard task. Defining the mission is indeed a hard task, however, of great importance regarding the management of Third Sector Organizations. The Non-Governmental Organizations should emphasize the practice of planning since strategic competence becomes crucial at a time when those organizations begin to act in coordination with other social actors in the development process such like in [5].

Another point of fundamental importance with regard to the strategy of Nonprofit Organizations is the definition of who their customers are. Customers are those who "must be satisfied so that the organization reaches results." There are clients as such: a) primary – the one whose life was transformed by the actions of the Organization, b) secondaries - those who work for the organization (volunteers and staff); c) donors and sources of reference. Still to this author, the Organization must inevitably create value for its customers who will satisfy their needs and desires.

The administration of an NGO is divided into four basic functions: Planning: drawing an action program that provides a glimpse of a future environment; Organization: performing the actions planned in a structured way, in order to get maximum results with minimal use of resources; Direction: performing the actions planned, using the individuals that make up the Organization and Control: ensuring implementation of all actions the way they were planned. Other functions: budgeting - procedures adopted by companies (private) to achieve desired goals of profit. The preparation of various budgets allows the manager to better visualize the allocation of resources and coordination of their activities. b) Performance Evaluation: quantifying the efficiency and effectiveness of the actions taken by the company such as in [6]. One of the main problems of performance measurement is the precise definition of what should be measured. Preparing budgets and evaluating performance are key aspects in the management of any and all institutions. Performance evaluation in the Third Sector entities is closely related to the concept of Accountability that, connotes an obligation to be accountable for the results achieved in relation to responsibilities under a delegation of

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Ana Carolina Silva is with University of the Trás-os-Montes and Alto Douro, Vila Real, Portugal (e-mail: arol@brvoice.com).

powers.

Given the above, this study aimed to identify aspects of management accounting practices used by Third Sector organizations located in the metropolitan area of Recife.

## II. METHODOLOGY

The methodology includes interviews applied to selected managers of organizations, as well as technical documentation indirectly through desk research and literature. The research was conducted in the metropolitan area of Recife with 21 of the 66 registered organizations.

In a universe of 66 institutions, 21 nonprofit organizations (charitable services, schools, professional associations, hostels and funds scholarships), were surveyed. The sample choice was intentional and determined by the spatial location and access to institutional agents. The methodological procedures used were exploratory studies (literature review and use of questionnaires) and documentary research. The database provided by the Ministry of Justice and the Getúlio Vargas Foundation (Map of the Third Sector) was invaluable. The statistical treatment was based on descriptive data analysis, by measuring the position (mean, mode and median), dispersion (standard deviation) and frequency comparison (proportion and percentage). Then, two tests for nonparametric hypotheses were applied: the Fisher Exact Test for issues that fall in a 2x2 contingency table and the Chi-Square test for other issues. In some cases, the significance level of 5% was relaxed since results may reveal clues that deserve to be investigated in future studies. The Statistical Package for Social Sciences - SPSS, version 19.0 for descriptive analysis and hypothesis testing.

## III. RESULTS

For the accomplishment of this study the following investigative questions were considered: a) which management accounting practices are used by the surveyed Third Sector Organizations? b) Is there any relationship between the characteristics of managers and management accounting practices adopted by the surveyed organizations?

Regarding the used management accounting practices, descriptive data analysis revealed the following results:

- 90.5% prepare the balance sheet; 95.2% prepare the income statement for the year; 85.7% prepare the demonstration of source and application of funds, 81% prepare the statement of changes in net equity and 95.2% prepare explanatory notes of their accounting statements;
- 90.5% of organizations use accounting information to be accountable to their funders and for Organization control and 61.9% use it for tax purposes;
- 45% prepare their financial statements monthly, 25% quarterly, 5% semiannually and 25% annually;
- 81% of organizations calculate costs of their services or products using absorption costing and the other one uses absorption and variable costing. Only 9.6% said that they know the costing method. Fifteen institutions were unable to determine which method is used, either for unfamiliarity with the existing methods or for never having thought about the matter;

- Among the 21 organizations surveyed, only one does not evaluate the performance of its results;
- 90% of respondents said that the implementation of a measurement system was due to the need for Organization transparency, 20% stated that it was due to council imposition 15% due to legal requirements and only 10% due to request by the community.

In order to test the 2nd research question aimed at verifying the existence of a relationship between the characteristics of managers and management accounting practices, used by the surveyed Organizations, the following assumptions were raised:

### A. 1st Hypothesis

H0 - There is no relationship between "education level of managers" and management accounting practices adopted by the Organizations surveyed.

H1 - There is a relationship between "education level of managers" and management accounting practices adopted by Organizations surveyed.

It is expected that managers with higher level of education adopt superior management accounting practices. In order to examine this hypothesis, the relationship between the educations levels of managers with all management accounting practices defined previously was tested. To operationalize the test of such hypothesis, a variable to represent the "Education level of managers" was built. Respondents were asked about their education level and responses were divided into two groups:

- 1) Higher education.
- 2) Specialist.

Building on the grouping of this response, each one of the variables described above were tested with the management accounting practices previously defined. Crossing these variables it was possible to reject the null hypothesis (H0), the lack of relationship between the "education level of managers" and the practice of benchmarking and accept the alternative hypothesis that there is a correlation between those two variables.

TABLE I: RELATIONSHIP BETWEEN THE LEVEL OF EDUCATION OF MANAGERS AND PRACTICE BENCHMARKING.

Education Level	Benchmarking			
		No	Yes	Total
	Higher	02	09	11
	Specialist	05	01	06
	Total	07	10	17
Fisher's Exact Test: Level of Significance: $P < 0$ .				

The second hypothesis sought to test the existence of a relationship between the variable "Time of action of Respondents in Organizations" and the use of management accounting practices. It is expected those managers (represented by respondents) with more experience (acting time) adopt better management practices:

### B. 2nd Hypothesis

H0 - There is no relationship between "Time of action of the respondents in Organizations" and the practices of management accounting, adopted by the surveyed Organizations.

H1 - There is a relationship between "time of action of the respondents in Organizations" and the practice of

management accounting, adopted by the surveyed organizations.

To examine this hypothesis, it was tested the relationship between the action time of the respondents in Organizations with all management accounting practices defined previously. For testing such hypothesis, a variable that determined the "time of action of the respondents in Organizations" was built. Respondents were asked how long they have been working in the Organization and the responses were segmented into two groups:

- 1) A period of up to two years of operation;
- 2) A period of five years or more.

To represent "quality", it was built a variable obtained through the responses to question 34, "e" of the survey questionnaire, which asks participants which groups of performance measures were used in the Organization. The variable targeted companies into two groups:

- 1) The ones who answered yes, ie using the group of quality measures;
- 2) The ones who answered no, ie, the ones who do not use the group of quality measures;

The null hypothesis (H0) was rejected at a significance level of 5.3%, in the Chi-Square test and 8.4% in the Fisher Exact Test, which allows to accept the alternative hypothesis (H1) of the existence of a relationship between action time of the managers and the use of group of quality measures in the Organization.

TABLE II: RELATIONSHIP BETWEEN ACTION TIME AND USE THE QUALITY MEASURES GROUP

Action Time	Group of Quality Measures			
		No	Yes	Total
	Period of to 2 years	05	00	05
	Period of 5 years or more	05	05	10
	Total	10	05	15
Fisher's Exact Test: Level of Significance: $P < 0,035$				
Chi-Square Test Level of Significance: $P < 0,053$				

#### IV. CONCLUSION

This work aimed at the research of management accounting practices adopted by the Third Sector Organizations in the Metropolitan Region of Recife. In order to achieve such goal, a literature review on the subject in question we carried out as well as an empirical study using the database provided by the Ministry of Justice and the Third Sector Map of Fundação Getúlio Vargas. It was found that:

- There is no relationship between the level of education of managers and management accounting practices, adopted by the organizations surveyed;
- There is a relationship between managers' action time and use of group of quality measures in the Organization.

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**Ana Carolina Silva** is native of Recife, in the State of Pernambuco, Brazil, born on Apr. 12, 1977; She holds a Bachelor's degree in accounting from the Federal University of Pernambuco (2002) and a master's degree in accounting from the University of Brasília (2005); PhD student in management from the University of the Trás-os-Montes and Alto Douro, Vila Real, Portugal, (2012). She is currently a MBA Assistant I of Universidade Federal Rural of Pernambuco and an hourly paid teacher at the University of Pernambuco.



**Ana Beatriz de Souza Gomes Brandão** is native of Niterói, in the State of Rio de Janeiro, Brazil, and was born on Feb. 21, 1956; PhD student in management at the University of Trás-os-Montes e Alto Douro – UTAD, Vila Real, Portugal, (2012); Master in Architecture and Urbanism at the Fluminense Federal University/UFF, RJ, (2011); Specialization at "Political and Strategic High Studies" Course, in the Superior War School/ESG, RJ, (2010); Specialization in Strategic Management, in the Coordination of Postgraduate Programmes in Management and Planning - COPPEAD at the Federal University of Rio de Janeiro/UFRJ, RJ, (2010); Post-Graduate in Management and Technological Innovations in Civil Construction, in the Federal University of Lavras/UFLA, Lavras, MG, (2006); and Graduated in Architecture and Urbanism at the University of Architecture and Urbanism SSSE/FAU/RJ, (1980). She is currently a Civil Architect at the Ministry of Defence, in the Direction of the Air Force Engineering – Air Force Command in RJ.



**Michelline Freire Moraes** is native of Palmeira das Missões, in the State of Rio Grande do Sul, Brazil, and she was born on 02/06/1982; Formed in Nursing from the University of Cruz Alta - UNICRUZ – RS, in 2004. She is a Master student in management course in Health Services at the University of Trás-os-Montes and Alto Douro – UTAD, Vila Real, Portugal, (2012).



**Zênidia Maria Almeida** is native of Governador Valadares, in the State of Minas Gerais, Brazil, and was born on Dec. 21, 1942. She is a PhD student in Management by the University of Trás-os-Montes and Alto Douro Vila Real, Portugal, (2012); Master of Social Science in the concentration area "Management of Cities" by PUC-Minas, (2001); Lato sensu graduate degrees on: Methodology of Higher Education, by FAFI/GV and UFMG, (1981); Economic Theory by PUC-Minas, (1978); Sociology by PUC-Minas, (1984) and Brazilian Economics by MEC/SESU/CAPES, (1985); and she has study by Cycle advanced studies school of of the war.



**Mônica Melo** is native of Recife, in the State of Pernambuco, Brazil. Management Graduated in Psychology; she got Master in Business. People and Organization at the Faculty of Boa Viagem. Presently, studying Doctorate in Management at the University of Trás-os-Montes and Alto Doro (Portugal). Professor at Higher Education Area. Main areas of expertise: Knowledge Management, Learning Organization, Organizational Behavior, Motivation, Human Resources, Programs of Leaders, Coaching and Mentoring.