Accountants have a major new role to play in aiding nonprofit organizations to define and meet their goals. But first they must understand —

HOW ACCOUNTANTS CAN HELP IN A LOOSELY STRUCTURED ORGANIZATION

by John P. Fertakis
Washington State University

THERE are a growing number of organizations in the United States which are finding their customary administrative controls to be inadequate. While the problem is not a new one, the need for new foundations for administrative control processes in certain kinds of organizations is becoming acute. The kinds of organizations experiencing the most problems in applying traditional control techniques are those that can be identified, for purposes of this article, as Loosely Structured Organizations, or LSO's.

Two general types of loosely structured organizations might be called the "association" and the "institution." The association type draws people with a particular special interest. Members join in a collective effort in furtherance of their common special interest. Some examples of this type of LSO are horse breeders, stamp collectors, PTA's, or the Boy Scouts.

The institution type of LSO is characterized by a highly specialized, usually technical, community of individuals functioning toward a socially or culturally defined objective. Some examples include a hospital, school district, college, research facility, the Red Cross, and a national church denomination.

A variety of innovative approaches have been tried in recent years to enhance the development of administrative frameworks suitable for such organizations. Social accounting, manpower accounting, and Planning Programing Budgeting Systems (PPBS), while in embryo stages of development, are attempts to meet broader administrative needs for information, and for the evaluation of effort. Essentially, planning and programing the activities of LSO's and evaluating accomplishments in broad terms are functions of the manager. In carrying out these functions, however, it is important that he be supported by a measurement system appropriate to his information needs and, more important, inde-

Members of LSO's fall into "primary" and "secondary group" categories . . .

pendent of management. The purpose of this article is to examine some organizational characteristics and recently developed variations in accounting measurements, techniques, and philosophy of control which might be helpful to the administrator of programs involving loosely structured organization frameworks.

Members of LSO's can be differentiated into "primary group" members, who are instrumental in carrying out the organization's functions, and "secondary group" members, who perform services ancillary to the primary group. The secondary group consists of office workers, technicians, and lower-level support personnel, who are by and large amenable to traditional controls such as cost accounting, standards of performance, and measurements of output.

Our major concern here is with the administrative control of the primary group.

Primary groups in LSO's may be full- or part-time; unpaid, fully paid, or receiving token payments; voluntarily associated or associated for other than pay alone; they are generally involved in pursuing goals either outside or above those of the organization itself.

The name "loosely structured organization" for such associations and institutions derives from (1) the lack of a "hold" on the individual by the organization (allegiance outside or above the organization itself, high mobility, technical or special interest orientation, and voluntary or semivoluntary ties to the group) and (2) a general lack of clear internal standards of work performance and/or measures of output for the primary group. In addition, such members tend to be sensitive to comparative rank, privilege, publicity, and other amenities distributed by the organization.

The traditional control logic, represented by instructions such as: "do it right," "do it my way," "do it or else," or "because I say so," is inappropriate for LSO's.

In attempting to control the activities of active primary group members, several practices become important tools for use within the organization. Among these are (1) information and education processes, (2) withholding of pay, promotion, tenure, publicity, or recognition, (3) the appointment and committee process, (4) the reduction of staff services to the member, (5) the reduction in or change of primary duties of the member, (6) a member vote of censure, and (7) expulsion from membership as a final resort. The administrator actually has relatively complete control over only the first of these practices. For the remainder, some primary group support must exist. Failure to obtain such support before action may jeopardize the position of the administrator himself. The bases for pressure activities of the type suggested above are difficult to establish in LSO's. The determination that performance is unsatisfactory often rests on subjectively determined criteria generally applied by peer groups. The administrator must take into account such factors as peer group jealousies, personal animosities between members, the member's possible use of unorthodox methods with high success probabilities for the organization, differences in the apparent and real criterion of successful performance from the point of view of the organization, and other matters.

When it is determined that a given course of corrective action or direction should be undertaken, the administrator or the appropriate procedure is often further constrained by the organization's charter, constitution, bylaws, and the need for proper authorization and approval in formal minutes of meetings. The very complexity of the administrative role and member roles in LSO's often forestalls correctional activity to the point of institutional embarrassment. As it often turns out, the administrator is sometimes more vulnerable to organizational controls than the members. A situation requiring control may, in fact, degenerate to the point where the administrator resigns rather than take the necessary action on organization membership. A new administrator, then, generally comes into a situation in which a recognized deficiency is present, and it is understood as a condition of his employment that a disagreeable task exists that must be faced directly. His initial activities are, therefore, relatively safe, even though onerous to primary membership groups.

It then appears axiomatic that an administrator of an LSO sets the tone for his subsequent control authority and processes early in his tenure. The membership is generally willing to adjust to an administrator newly installed, but if his future activities depart from group-developed expectations, the process comes full circle.

Where primary group membership is voluntary and not remunerated, control, of course, hinges on the group or organization's goals. Members will allow and subject themselves to control efforts to the extent that the goals themselves have intrinsic value to members. Direction and control efforts by the administrator in such a situation call for clearly establishing the relevance of the tasks he assigns to the success of the organization and its ends. Even so, the administrator must rely a great deal upon information, education,

The lack of good measurement systems oriented to the realities of work . . .

and the art of personal persuasion to hold the organization together and maintain its functions. Every effort must be made to maintain an empathy and "sense" of the feelings of group members on major issues, tasks, and activities. Few if any, censure opportunities or corrective measures are available should the administrator allow an unsatisfactory situation to develop. The lack of good measurement systems oriented to the realities of work performance in LSO's represents a challenge to the administrative control process.

The usual administrative control process is based on a relatively simple diagram of flows and relationships, as shown in Exhibit 1 on this page. It is evident that the control process hinges upon the analysis and evaluation of measured results of activities of members in comparison with planned results of such activity. A discordant relationship at this point suggests the need for management intervention in the area of member activity or the need for adapting plans to organizational or environmental realities. The term "ends structures" refers to ends, goals, and objectives of the organization members and leaders.

The loosely structured organization cannot be adequately controlled under the concept expressed in Exhibit 1. To attempt to do so would force the position of the administrator to the detriment of the future of the organization and its purposes. On the one hand, the measures of activity and/or output are hard to obtain and evaluate in the forms generally attempted, and, on the other hand, managerial intervention in the member activity presupposes a greater degree of formal authority and special technical competence than ordinarily exists in the administrators of loosely structured organizations.

An examination of the process of administrative control in loosely structured organizations tends to support the presence of a control process, as shown in Exhibit 2 on page 51. Note that the processes of measurement and evaluation are here inextricably joined together and closely articulated with ends and plans. The process of evaluation in LSO's *includes* decisions as to what constitutes the relevant environment, the means of measurement to be employed, and those elements to be measured. It does not generally include a measure of programs *per se* except where default becomes obvious to the peer group in qualitative terms. Administrative action against errant members is usually initiated by the peer group. Where the administrator himself attempts action against a member without peer group support an extremely unstable situation may develop.

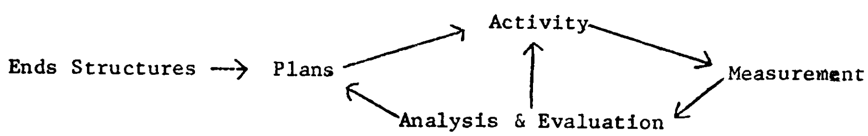
Accounting for purposes of scorekeeping, managerial attention directing, or problem solving in an LSO must involve more than the transaction-based records usually employed for such measurements. One problem introduced by the usual LSO configuration is in the selection of relevant measurements of total organizational activity and in evaluating movement toward broad ends structures. Another problem is the need for the administrator or members to identify significant areas in which to develop and apply criteria as to success, progress, stability or regression of programs undertaken. The definitions of the program and of appropriate success measurements are, of course, the responsibility of the program planners. The role of the accountant in nonfinancial aspects of program measurement and reporting is lacking in clear definition and thus is controversial. The accountant can nevertheless be involved in a number of ways to sharpen the focus of the administrators so that broad purposes and goals do not escape attention.

The accounting profession has recognized the need for developing measurement systems to supplement the transaction-based records of organizations. Progress has been made in a number of areas in identifying and analyzing the broader information needs of managers such as are exemplified in the administration of loosely structured organizations. Some areas of progress in developing the "new" accounting can be illustrated by some recent explorations in social accounting, identification of a relevant environment, measuring the effects of organization activity in the external environment, manpower accounting, and adapting nonfinancial measurement systems to the system of accounting measurement and reporting.

Social accounting can be broadly defined as an attempt to measure and relate to organizational activity a broad range of changes in a relevant external social environment. Two recent examples of writ-

EXHIBIT I

The Management Control Paradigm



. . . performance represents a challenge to the administrative control process

ing in this area are found in the *Journal of Accountancy* and in *Management Services.*

In Robert Beyer's *Journal* article, "The Modern Management Approach to a Program of Social Improvement,"[1] he discusses the experiences of one accounting firm in dealing with information needs in Detroit's program for Human Resource Development. A computer-based information system was designed for that program. Two kinds of reports are produced: One "includes all the documentation that is required for funding and statistical purposes."[2] The other relates to the needs of the managers who operate service centers. No mention is made of any attempt to relate the two for the needs of overall administrative control. Mr. Beyer emphasizes that "Continuing measurement, reliably controlled in the best accounting tradition, provides a valuable instrument of continuing evaluation. The absence of this ingredient is responsible for the failure of more social improvement programs in the past than any other single factor."[3]

Another recent article illustrating facets of social accounting is by William J. Bruns and Robert J. Snyder, "Management Information for Community Action Programs."[4] In *Management Services,* the authors emphasize the need for measurements of the organization's external environmental factors in a goal-oriented context. In effect, the authors contend, cost data which are normally useful as a measure of *efforts* are not sufficient as a measurement of *effect.*[5] (In LSO's it may even be contended that cost data *per se* are of doubtful value even as a measure of individual or organizational effort.) The essential task in measuring the performance of a community action program is "to evaluate its success in affecting the *indicators* of poverty considered representative of community ills.[6] (Emphasis added.)

These articles by Beyer and by Bruns and Snyder illustrate some of the potential analytical thought that accountants are able to contribute to the new needs for relevant measures of organizational activity in LSO types of organizations.

The problem of identifying the relevant environment, in the accounting context of LSO's, becomes that of determining from the goals of the organization the areas external to the firm which should be affected by the resource allocation program. While organizations for profit obtain a single revenue measure which is somewhat indicative of success in affecting the external environment, LSO's must often perform either in activities which do not produce financial revenue or where financial revenue is not in direct relationship to program benefits. Probably the Government Accounting Office (GAO) is the best example of the changing role of the accountant in identifying significant nonfinancial areas of measurement.

The nature of governmental social programs conforms closely to the problem discussed above—insignificant financial revenue from activity and revenue sources not related to program benefits. The GAO has found it necessary to examine programs with a view to determination of the *intent* of the program and then to identify appropriate attributes of some external environment to measure. This approach has led GAO accountants into the complexities of psychology, sociology, engineering, and demographic studies, to mention but a few.

Nongovernmental LSO's have similarly been faced with the problem of identifying and clearly defining environmental characteristics which they hope to influence. For example, an association for supporting study and research and developing public awareness of a health problem must, to increase its effectiveness and generate added support, be able to identify and influence those factors indicative of both public awareness and scientific progress. Some indicators of public awareness are increases in donations, new memberships, invitations to address various gatherings, letters received, member surveys, legislation introduced, and so forth. Scientific progress indicators might include the number of researchers at work, a shift in research focus,

[1] Robert Beyer, "The Modern Management Approach to a Program of Social Improvement," *Journal of Accountancy,* March, 1969, pp. 37-46.
[2] *Ibid.,* p. 40.
[3] *Ibid.,* p. 45.

[4] William J. Bruns and Robert J. Snyder, "Management Information for Community Action Programs," *Management Services,* July-August, 1969, pp. 15-22.
[5] *Ibid.,* p. 19.
[6] *Ibid.,* p. 20.

EXHIBIT 2

The Control Process in Loosely-Structured Organizations

```
Ends Structures ——> Plans ——> Activities ——> The Relevant Environment
      ↕                ↑                                   ¦
Measurement & Evaluation <- - - - - - - - - - - - - - - - -'
```

the degree of sophistication of research, and completed research projects and evaluations. The administrative problems of LSO's can be diminished significantly to the extent that factor identification is included in organizational planning.

Once the environmental characteristics to be affected by the organization have been identified, the problem of adequate measures of change must be solved. Before-and-after statistics relating to certain economic and population factors are useful where available on a regular basis. Special measurement techniques, such as psychological testing, sociometry, and opinion and attitude sampling, are available and are being applied by numerous consulting and research organizations. The problems of measurement are simplified to the extent that the organization's planning process includes a definition of the characteristics to be influenced, which was discussed above, and to the extent that there is an expected relationship between measures of benefit and financial decisions of resource allocation. To some extent the structuring of relationships can be accomplished through the "program budgeting" device. A recent article in the *Price Waterhouse Review* by C. William Devaney, entitled "Program Budgeting for Non-Profit Administrative Decisions,"[7] is of interest in the problem of measurement.

Within the LSO, some measure of the success of the organization and its programs can be inferred from the characteristics of its primary group personnel.

Mr. Devaney points out that "The fundamental idea underlying a Planning Programing Budgeting System (PPBS) is the relating of all resource-consuming activities to the *objectives* of the organization rather than *to* the organization itself."[8] The resulting budget highlights the objectives to be attained as a result of each planned expenditure. Of particular importance for the present discussion is the emphasis in PPBS upon including in the structure of a program an identification of an observable output that will be useful as a measure of program achievement.[9] Several examples are included in Mr. Devaney's presentation, including the areas of health service, education, and government.

Mr. Devaney also distinguishes two concepts of program analysis: cost-benefit analysis and cost-effectiveness. Cost-benefit analysis usually involves a dollar measure of both inputs and outputs. The economic trade-offs central to resource allocation decisions of an administrator are highlighted in such a format. Cost-effectiveness analysis attempts to relate the resources allocated to the end results in whatever terms are relevant to the program's objectives.[10]

David F. Linowes, writing in the *Journal of Accountancy* for November, 1968,[11] states that PPBS is based upon the tabulation and evaluation of alternative courses of action—similar, in effect, to the management accountant's assistance to management in decisions involving economic choices. Mr. Linowes suggests greater cooperation of accountants, economists, statisticians, and sociologists in developing new concepts of measurements suited for the needs of administrators in not-for-profit organizations.

Within the LSO, some measure of the success of the organization and its programs can be inferred from the characteristics of its primary group personnel. R. Lee Brummet and others, writing in *Management Accounting*, discuss "Human Resource Accounting: A Tool to Increase Managerial Effectiveness."[12] While the authors' orientation is the commercial organization, some of the techniques

[7] C. William Devaney, "Program Budgeting for Non-Profit Administrative Decisions," *Price Waterhouse Review*, Summer, 1968, pp. 44-53.

[8] Ibid., p. 45.

[9] *Ibid.*, p. 46.

[10] Ibid., p. 50.

[11] David F. Linowes, "Socio-Economic Accounting," *Journal of Accountancy*, November, 1968, pp. 37-42.

[12] R. Lee Brummet, Eric G. Flamholtz, and William C. Pyle, "Human Resource Accounting: A Tool to Increase Managerial Effectiveness," *Management Accounting*, August, 1969, pp. 12-15.

they describe are potentially useful for the administrative evaluation of manpower potential, use, and cost in the "institutional" type of LSO. Where primary group personnel are largely specialists dealing with complex variables not easily amenable to evaluation, the picture of human resource deployment and cost that such a procedure allows has a relevancy to the administrative control frame of reference. Again, articles of this type illustrate the increasing flexibility with respect to measurements to be found in today's accountant.

Accountant must take initiative

The information needs of the administrator of an LSO are often met, if at all, by an inadequate, unreliable, or fractured data gathering function. Too often, progress reports are prepared by the same personnel who administer programs or functions, accounting information tends to be ledger-oriented, and statistical data are incorporated on a random and slipshod basis if at all. The attempt to relate financial flows to benefits generated is of course fraught with measurement problems – often requiring subjective interpretation and relying excessively on program personnel themselves. But in the interests of administrative control – and to ensure the survival of truly worthy organizations, programs, and services, the time has come for the accountant to take the initiative in developing a benefit-cost reporting system. (Note the reversal of terms from that used in accounting programs. It is not costs which are to be allocated to benefits but benefits that are to be associated with various program costs).

A safe assumption is that in most LSO's the accounting function is the only existing *systematic* process of measurement for management and reporting purposes. Of course special reports have been and will continue to be significant for the identification or solution of certain problems. But a new accounting orientation is needed so that the organization's important external environmental factors can be included where feasible in accounting reports to program managers. Organizations such as associations to educate the public regarding member activities, for example, should relate some measurement of the trend of public awareness to the costs expended for that purpose.

Of course, operations budgeting, cost center accounting, and normal accounting procedures should be continued. These functions are relevant to the organization in both the legal and internal control sense. The use of such concepts alone for the administrative control of primary groups would be ill advised, however. Such tools should be utilized for their express purpose of fund allocation and control and to tie the use of funds to functional or other organizational outlines through responsibility and authorization relationships.

A greater involvement on the part of the accountant is desirable in both the administrative planning process, in which he should help the administrator identify the relevant environment to be affected by the programs and activities of the organization, and in the control process, by obtaining agreement concerning the development and utilization of appropriate measures of change in that environment. Accounting reporting should be subsequently modified so that clearer benefit-cost associations are available to the administrator. The accountant's particular role is an extension of the traditional function of impartial measurement and communication. While some may question the capability of accountants

The information needs of the administrator of an LSO are often met, if at all, by an inadequate, unreliable, or fractured data gathering function . . .

JOHN PETER FERTAKIS is an associate professor of business administration at Washington State University. He has also served on the faculties of the University of Washington and Eastern Washington State College. Dr. Fertakis received his B.A. from Washington State College and his M.B.A. and D.B.A. from the University of Washington. He has published several technical articles and book reviews.

to deal with such complex variables as social and psychological and engineering data, it is a fact that many organizations *have* successfully integrated their measurement systems under accountancy. There appears to be no one group capable of fully understanding and operating such a system as has been described. The accountant suffers from no shortcoming not also present in other specialists. With a full understanding of the task, there is no reason to doubt that his peculiar qualities give him an advantage over others. The design and the operation of relevant information systems in an objective manner has always been the accountant's primary goal and concern. His increasing involvement in operations and management audits has already drawn the accountant into the analysis and reporting of nonaccounting data in conjunction with his accounting system functions.

Two types of measurement

One of the basic measurements desirable for LSO's is the classification, by source and purpose, of the financial and property inputs to the organization. To this end, ordinary financial accounting can serve with little or no modification.

A second type of desirable measurement is that oriented to the identification of cost flows through and out of the organization, again relating the flows to purpose and source. These two basic measurements are simply methods of relating means to programs and activities.

Utilizing only the measurement of revenues and cost flows at first, the beginnings of a useful administrative control tool can be developed. Presumably the revenues and capital inputs of an LSO are either derived from services to members and are thus related to member needs in "associations" or, in the "institutional" organization, are derived from the performance of specialized, technical services for clients. Therefore a basic accounting measurement of importtance to the administrative decision process is a complete and comparative analysis of revenue. Such an analysis should go beyond the usual sense in that it should be reported on a statistical basis. Revenue should be identified by such useful classifications as geographic area, age, sex, family income, family size, job occupations, reasons for joining or seeking services, and other characteristics of members (for dues and/or initiation fees), clients (for services performed), donors (for capital contributions), and agencies (for tax or grant-derived funds). The analysis of revenue should also include trends and comparisons.

While revenue analysis may appear to be introspective and not as indicative of administrative control needs as cost relationships in commercial and industrial organizations, it does offer decision making possibilities in the LSO. Revenue analysis will indicate, for example, classes of service which appear to attract and be in favor with members, clients, and donors. They thus, in a sense, measure an aspect of the organization's external environment which is easy and inexpensive to obtain and which is related to organization purposes quite directly.

A measure of revenue as described above should be of some assistance to the administrator in directing the efforts and plans for future programs of service activity, research, and other areas in which the greatest benefits can be obtained for members and clients with the most effective deployment of cost factors.

Watching trend relationships

Turning from revenue analysis, a measurement of potential benefit to planning and administrative control of LSO's is simply to list various environmental changes as derived from demographic studies, opinion and attitude surveys, sociometric research, legislation enacted, and so forth. Where feasible, such statistics could be accompanied by measures of resources devoted to each related area within the organization and by all other organizations similarly involved.

In addition to the new orientation to statistical revenue and cost analysis, the accounting function can, on a regular basis, obtain various measurements of those factors identified in the program plans of the organization. These can be compared through simple calculus, for example, taking the change in resources allocated for a service compared with the change in the external measurements. While such a procedure would not be adequate for administrative decisions because of probable time lags in programs and effects, it could serve to indicate trend relationships and areas of concern for future research and study. The more adequate long-run program evaluation that such reporting would facilitate would constitute a significant breakthrough in administrative control information for LSO's.

Developing controls

Organizations which are characterized by loosely structured administrative environments are in need of systematic improvement in what might be called a "program reporting" orientation of accountancy.

Such a movement is properly within the scope of the accountant's expertise. Excursions into nonfinancial measurements are already being made by accountants. The objectivity and means-ends approach of the accountant's work appear to make him the logical candidate for developing the administrative controls so desperately needed by LSO management.

To an increasing extent, organizations operating in more technologically advanced industries and marketing organizations are finding some parallels to the administrative control problems of LSO's. The lessons learned and methods developed for the administrative control needs of LSO's may soon be needed in more commercially oriented enterprises.