KNOWLEDGE ACCOUNTING FOR NON PROFIT ORGANIZATIONS: AN EMPIRICAL STUDY

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Abstract - Research Objectives: the work is part of a first study on the importance of implementing the management control and accounting knowledge in the enterprises of the Third Sector. In particular, in the present study, we analyze the problems and effects on the decision-making system in response to a lack of knowledge in the field of accounting and distorted interpretation of the data of cost accounting by the Management and Controller.
Methodology - It has recourse to the themethod of the case exploratory study, with qualitative approach.The aim was to understand as a result of this first survey the importance of the reliability of the information and the impact that the distorted informationshave on the decision-making system.
Results - The transmission of knowledge by the Controller, interpreted in the light of a wrong training and conveyed to top management, involves the negative impact on decision-making and control of the undertaking, which prove to be not in conformity with the real situation.
Scientific contribution:the studyaims to analyse the relationshipbetween the use of knowledge and information and management control and the implication derived by the users in the Third Sector.

Keywords - ThirdSector, costaccounting, knowledge management, knowledge accounting.

I. INTRODUCTION

The present work is part of the management control studies in the Third Sector (Osborne, 2008; Lewis 2002), and is aimed at investigating the relationship between the knowledge in terms of accounting, the role of the controller in interpreting accounting information and transfer them to the top management. This research is focused in the social enterprises (Pestoff,2005;Borzaga, 2001;Laville et al., 1999) , in particular the multi-service cooperative, organizations in which the cognitive tools of accountability and management control are often lacking. The main problems are related to decision-making and cost control.

The information aboutcostaccounting (Kaplan, 1988) are criticalelements to implement a marked management control system on cost accounting. The cost analysis system is important when managers have to make choices (Cooper and Kaplan, 1988) and the information of cost accounting incorrect, or incorrectly interpreted and transmitted, imply the information asymmetriesthatturnintobadchoices (Jhonson and Kaplan, 1991). In this context, the role of the Controlleror Accountant(Wilmshurst, 2001)is crucial, becauseheprovidestheadequate and reliable informations and hetransfersthem to the management that use them for the decision-making. There are numerous studies that have investigated the relationship between levels of management knowledge in terms of compatibility and performance of information and accounting system (Cloyd, 1995; Bonner and Lewius, 1990). Instead, there are few studies that has been investigated with regard to the non-profit sector and in particular the social cooperative enterprises (Costa et al., 2012; Thomas and Mancino, 2005; Thomas 2004; Andreaus, 1996; Austin et al. 1996).

The study investigates:

- The relationship between the lack of knowledge andtraining on accounting of Controller and distorted information that he transfers to management.
- The consequence is on decision-making and it proves the lack of management skills in The third Sector.

THEORETICAL FRAMEWORK

II. THE THIRD SECTOR AND SOCIAL COOPERATIVE

In the last few years, the ThirdSectoritwasinvestigated by many(Powell, 1987; Salamon and Anheier, 1999), particularlythesestudies have focused on accountability, the social accountability, the management control system and cost accounting. The ThirdSectorplays an important role in the economy and social development of countries and for the development of Welfare, indeed in Europe has proven to be a strongand potentiallygrowingsector(Defourney and Nyssens, 2008). InItaly, among the forms of non-profit organization,he has seen the emergence of the Cooperative, considered one of the most important forms of social enterprise that adopt the specific legislation (Costa et al., 2012; Defourney and Nyssens, 2008; Matacena, 2007; Mancino and Thomas, 2005).

Those working in this sector reveal to have a low capacity and managerial skills (Lewis, 2002), despite

the high degree of professionalism. This type of companies pursues an objective that is not attributable to the return on investment or the creation of such exclusivity of the partners benefits, but refers to the creation of social value (Costa et al., 2012; Austin et al., 2006;Mancino and Thomas, 2005; Thomas, 2004; Andreaus, 1996). To this end the presence of an appropriate management control system, together with a culture and managerial knowledge is crucial to the attainment of the end of the same company.

III. KNOWLEDGE MANAGEMENT AND KNOWLEDGE ACCOUNTING FOR NON-PROFIT SECTOR

The aim of the Third Sector isn't the profit maximization and distribution of profit among shareholders, but the objective is to create value for stakeholders. The non-profit organization in order to achieve a positive economic result (Anthony and Young, 2002) and increase their performance must employ the most of their resources. The achievement of objectives and is a guarantee of financial stability that turns into survival of the organization (Blumenthal, 2003) and the pursuit of business objectives.

The studies, however, show that the Third Sector often suffers from a lack of managerial and economic skills in the knowledge, the interpretation, the use and the transfer of information resulting from the administration tools and their correct implementation (Mancino and Thomas, 2005; Francesconi, 2009).
The concept of knowledge wasinvestigatedunderseveralpoints of view (Fahey and Prusak, 1998) and usuallyitisdefinedunder four aspects: knowledge as thought, as a goal, as a condition ofaccess, process and capacity(Alavy and Leidner, 2001). The knowledge is regarded as an extensive set of information (Zack, 1999) that were "perceived, discovered, learned" and able to increase the effectiveness of the actions proposed by an organization or individualpersons (Huber, 1991; Nonaka, 1994).

According to Watson (1999), knowledge is the ability to use the information, there where experience and learning are fundamental to understanding what information you need, how they should be interpreted and what information you choose to make decisions. Knowledge, however, needs to be handled and transferred. For this reason, the studies are focused on Knowledge Management System, which supports the transfer of knowledge, information and its application within the company. The Knowledge Management helps the competitiveness of organizations (Von Krogh, 1998).
In this context, the controllerplays an important role, becausehe must provideappropriate informationssothat decisions are taken. The financial informations in its possession are used to plan any action to be taken and to evaluate the organization'sperformance (Wilmshurt, 2004).

The accounting information must be relevant and reliable. Indeed, the information must be relevant to the decision-making and reliable to give confirmation of their accuracy or completeness (Stone, 2004).The role of accountant is to use your knowledge internally and externally to the organization; internally to analyze the performance of the organization, externally to produce the reports useful toexternalusers (Wilmshurts, 2004).

It was important investigate the importance of knowledge management and the accountingknowledge, indeed the aimitwas to analyze the relevance of the analyticalaccounting system, such as management control tool, and the level of competence and business knowledge of the management (Dearman and Schields, 2001; Stone et al., 2000) and of the Controller. The Knowledge Management and Knowledge Accounting theory support that the transfer of knowledge and information are key decision-making; equally important is the role of the controller which conveys accounting information that transmits for the decisions to taken, he measures the internal performance of the organization and heprovides the results to varioususers (Wilmshurts, 2004).

In this paper we analyze also the important of the information cost accounting because it is a crucial element when managers are having to make strategic choices, take short-term decisions or monitor conditions of employment of resources (Chan and Lee, 2003; Christensen, 2010; Govindarajan and Shank , 1992). Such information is also among the key factors for the assessment of corporate and managerial performance (Horgren, et al., 2009) togetherwith non-accounting information (Otley, 1999).

In the light of the analysis, it is the vast literature that considers the accounting tool as useful to the planning, formulation and review of decisions (Kaplan, 1983), adding value to the enterprise (Gupta and Gunasekaran, 2005). Some studies point out that the accounts favors the interpretation of organizational problems on the part of the manager or managers setting theirresponsibilities (Colignon and Colaveski, 1993) and exploring new models or accounting practices in response organizationalenvironment in whichtheyoperate (Smirch and Stubbart, 1985).
The Research Question are:

QR1: The Insufficient knowledge and training in accounting involves a misinterpretation of the

information and data communication to the management?
QR2: How a good level of accounting knowledge is crucial to the decision-making within the organization?

IV. METHOD

The case exploratory study (Yin, 2014) was identified in a Cooperative of services located in North-EastItaly. The finding of the case study was carried out through the evaluation of the presence of the following factors: social cooperative medium sized company willing to be investigated, declared presence of a management control system. The survey was conducted on the theoretical framework, which focus on studies about the accounting knowledge and cost accounting; it has aimed at understanding the impact of this elements on business decisions. The data collection instruments were identified in the analysis of documents, observation participant providing the presence on site of semi-structured interviews to the President, General Manager, Administration Manager and Head of Quality and Accreditation, by resorting to a variety of information resources which it allowed to make a triangulation between the detected data (Yin, 2014). The semi-structured interviews, for their characteristic of interaction between interviewee and interviewer, have revealedorganizational and behavioral aspects (Corbetta, 1999) and have been functional for understanding the context investigated and in particular of the degree of information awareness of the ' use of accounting data and the revaluation of certain strategic choices in the light of the information obtained (Qu and Dumay, 2011).

V. FINDINGS

The company Alfa, is a social cooperative type "A" located in the North-East of Italy operating for over 30 years in the field of social and health services. Year "n" in which was conducted the analysis the Alfa cooperative is present in 9 provinces of 4 different regions, recorded an average turnover of about 30 million euro, an average number of employees over 800. In the context of the social assistance services the cooperative Alfa operates in 5 sectors of activity (which for simplicity we will call A, B, C, D, E) each of which in turn articulated in facilities and / or services. The analysis of the event had as main subjects interlocutors the President, the General Manager, Administration Manager and Office Manager Quality and Accreditation.

The administrative manager and controller has no specialized training in cost accounting. The Administrative and Controller Director, presents a high degree of administrative and financial experience in the field, but is deficient in terms of specific training and experience in cost accounting. The Director-General has no training in accounting field.

The management control system is carried out directly by the Head of Administration with the support of an external consultant company. He plays the role of controller of the company, is aware of the accounting data and information processed by him.
It was crucial to understand how the controllerinterprets the accounting data and to do thisweproceeded to investigate the method of cost allocation. The overheadcosts are first allocated to a cost center named "Office" and then allocated over the other centers by revenue. The cost allocation is developed first on a level where the fixed and variable costs are allocated to individual departments and centers of responsibility and general costs are allocated based on the cost center "Office", while on a second level are the general indirect costs on the account "Office" that will be allocated to the various facilities as a percentage of their turnover managers for decision-making.

The analysis on the documents requested on the cost structure and the allocation criteria and the subsequent interview with the General Manager and Head of Administration gave evidence early on to some potential problems. The classification of costs is made by Alfa cooperative without the aid of an analytical accounting software, but through spreadsheets and elaborations "manuals" are not always easily reconstructed. The Controller says: <<we realized that not always the construction of the cost items was satisfactory, when I realize that can be improved I change my patterns in Excel, in order to have a more accurate figure>>. The detailed rules for breakdown of costs, aggregation and allocation of indirect costs are changed from year to year.

The restatement was required to make a reliable cost data side, on the other hand provide useful information and consistent with the strategic objectives of competitiveness and market expansion. It has been put forward certain proposals and based on this we are confronted with the Controller to understand the degree of knowledge and influence that its accounting information had on decision-making.

The other part of the survey was to understand how knowledge and information received from the Controller to Management would be used by them in order to make strategic choices.

We propose two hypotheses to calculate the Operating Income. Weconfront the results and the opinions by controller and manager.Calculating the Operating Income of the 5 sectors, it showed that according to the reclassification schedule adopted by

cooperative sectors A and E had positive results, while the rest were negative. In particular the management attention was focused on the sector "B" of recent birth, the result of new strategic choices. The result of the Operating income calculated in accordance with the hypothesis formulated by us, it shows that the sector B, which in previous results appeared to be at a loss, in reality it is not. When asked specifically about the reasons that led to the identification of these aggregations of cost and financial results have not been consistent responses dates with the information needs useful to the cooperative: <<I do not think is relevant as we go to aggregate and allocate indirect costs, the outcome total companydoes not change>>.In presenting the results of the two hypotheses have registered two different mode of reaction by the controller, and senior management in particular of the General Director. While the former has stressed that the choice from which springs the VAT pro-rata, from which it derives in large measure the result related to the sector B and E is due to the logic of fiscal convenience and then not important for management purposes. The management has expressed, on the contrary, great interest in the information gleaned by making specific reference to the implications with respect to future strategic decisions arising from the information that the different modes of aggregation and allocation of cost data were able to detect. The General Management said: <<for the strategic choices made this information would be useful [...], I realize that I was not able to interpret the information I had>>.

CONCLUSION

The findings of research can answer to research question and make the considerations about the important role of knowledge management to interpret the information of cost accounting.

The high professionalism and competence in administrative and accounting framework do not guarantee the presence of the logic of specific cost accounting principles, in this case, for example, the Controller gives of evidence on several occasions not to fully understand the information flow analytical accounting and of the overall management control system. The interpretation and use of the data submitted the controller to management wereconsidered by the same managers as the basis for operating decisionmaking. The lack expertise and knowledge on the part of bothregarding the accountingmeantthatsome areas consideredunprofitable in reality theywere, and vice versa.

The analysis on the documents requested on the cost structure and the allocation criteria and the subsequent interview with the General Manager and Head of Administration gave evidence early on to some potential problems.

Finally, the empiricalanalysis, with respect to the research questions posed in thisstudy, gave evidence of the following considerations: the decision-making system of social enterprises, and particularly the social cooperatives, needs an information system within the control of management capable of providing reliable information and as regards the economic aspects and in relation to the objectives and social goals of the same (Costa et al., 2012; Mancino and Thomas, 2005; Thomas, 2004 Andreaus, 1996; Austin et al., 2006). Non-profit enterprises often have problems related to the lack of adequate managerial skills. Knowledge and information management by the Controller and Management is a fundamental element in order of strategic decisions (Stone, 2004).

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