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Cost management: a Study of an Organization in the Third Sector

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ABSTRACT

The civil society can be organized into three pillars: the first, the second and the third sector. This paper deals with the third sector. The third sector is formed by private non-profit institutions that operate in conjunction with the State performing activities previously entrusted to it, but that, over time, have become demands unviable to be met by the direct action of the Government. Each of the three sectors mentioned has specific characteristics in various aspects, starting with the purposes for which they are intended. However, it is of public interest a fundamental idea: the means used to manage its wealth need to be effective, not only to ensure their continuity, but, above all, for obtaining good results. **Objective:** Under this premise, the general objective of this study was delimited: apply an appropriate costing method to the demands of IDES/Promenor, an organization in third sector. **Results:** Therefore, an applied, exploratory and descriptive research was carried out through a case study. The organization studied was the IDES/Promenor and were collected data regarding the years 2011 and 2012 and the study results show that, according to the organization's characteristics, the costing method that is closest to the reality of the IDES/Promenor is Absorption Costing. **Conclusion:** By using the Absorption Costing, it was possible to find out the costs of each one of the departments of the production program of the organization.

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INTRODUCTION

The third sector organizations (TSO) have their source of income mainly from the state and citizens' or companies' donations. The organization object of this study allocates its resources and activities by cost center with no predefined criteria. However, the financial information internally generated are supported by a system of bookkeeping information and of administrative routines that are not able to generate an integrated control of costs and expenses involving the organization's processes.

Given the complex scenario in which the management of a third sector organization, managers can take advantage of accounting and its measurement instruments of revenue and expenses to assist the management process, seeking to base the decision making and the exercise of accountability. According to Albuquerque (2006), this ability to organize the organization's financial information stands out as a strategic management approach for its operation and for the fulfillment of its mission and objectives.

It is necessary to understand that the TSOs, although non-profit, must aim at maximizing their results, because a positive result is essential for the maintenance of its activities and for the remuneration of its managers (management fees) and employees (remuneration). The profits must be retained and reinvested according to the needs of the institution as in a company or government, also the third sector organizations have to be very well managed from the point of view of human, financial and material resources to enable them to develop their projects and programs [...] (Albuquerque, 2006, p. 57).

The allocation of funds, i.e., how the resources are being used in the institution, is a significant factor to contemplate a proper administration. Thus, it is relevant to think and propose the development of a systematization of costs allowing greater control of the organization, given that the clarity and timeliness

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of the information generated by a system help throughout the management process.

An organized management can also contribute to the accountability process to have a more practical and easy design for the organization. In this sense, seeking ways to improve the financial management of the organization and, thus, helping the organization to show to its donors how the resources are appropriates is a way of contributing to the expansion of the entity itself with regard to the veracity of its work, generating, thus, opportunity for other potential donors to verify the reliability of the organization. According to Raupp and Godoy (2013), although there has been a growth of these organizations and their influence on society, the TSOs, due to recent scandals involving organizations in this segment, face serious confidence conflicts regarding to the legitimacy of their efforts. For the authors, the bias of transparent information encompassed by such organizations should not be restricted only to the government and their donors, but also to the general public and beneficiaries of their services.

An efficient management helps to support the decision making, assets control and, above all, to potencialize the activities developed, striving for the continuity of service provided. This study will assist these organizations in the administrative and accounting aspect, favoring management models and the optimization of resources in order to expand the social action of these organizations.

As a general objective we seek to apply an appropriate costing method to the demands of the IDES/Promenor, a third sector organization. In order to achieve such objective and results that contribute to the organization's resource management, and the development of the administration science, the following specific objectives are established: *a) presenting the theoretical and legal aspects of the third sector; b) characterizing the costing methods and its use in management processes; c) identifying the costs composition items of the IDES/Promenor in its programs.*

MATERIALS AND METHODS

At the methodological level, with regard to its purpose, this study is configured as applied, exploratory and descriptive. The exploratory research, according to Severino (2009, p. 123), seeks to "gather information about a particular object, thus delimiting a field of work". This understanding is complemented by Gil (1996, p. 45), when stating that this type of research "provides greater familiarity with the problem".

According to Köche (2001), the descriptive research "studies the relationships between two or more variables of a given phenomenon without manipulating them", and it is essential to establish relationships between these variables.

In order to achieve the specific goals we intend to make use of field research, bibliographic and documentary studies. The bibliographic research, according to Gil (1996, p. 48), "is developed from already prepared material, consisting mainly of books and scientific articles." Therefore, the use of literature is essential to characterize the object of study and the theoretical discussion of the issues.

The documentary research, in turn, is based on content "haven't received an analytical treatment yet, or that can be reformulated according to the research objects" (Gil, 1996, p.51). Thus, the research uses specific documents of the institution (such as reports and other internal documents) to identify the costing information.

Finally, the field research will be used. According to Vergara (2000, p.47), field research is empirical research conducted on the spot where occurs or occurred a phenomenon or that has elements to explain it. May include interviews, questionnaires, tests and observation, participant or not.

The field study will be conducted to survey and identify the items that compose the costs in the projects of the IDES/Promenor.

In this study, data were collected by observing practices and routines of the administrative sector and the administrative management of the entity in the period from 2012 to 2014. The documents analyzed have primary characteristics, involving the accounting books of the IDES/Promenor for the years 2011 and 2012, and also the contracts and agreements that the organization had in the same period.

Interviews were conducted with the management responsible for issues related to cost information to complement the data. Interviews were also conducted in the other departments with focus on the functions and activities of each department to support the assessment criteria established in the study.

It is important to highlight that the IDES/Promenor develops three programs (productive, philanthropic and auxiliary) of service to the population, in which there are different centers of work; however, for the purposes of this study, only data regarding the production program will be used once they are the ones that provide the cost information.

Results:

Third sector:

It is the State's duty, in accordance with Art. 6 of the Constitution of the Federative Republic of Brazil, to ensure to all Brazilian citizens the social rights, such as education, health, food, work and leisure, among others. Although these demands are fully accepted by the Government, the State, over the time, became unable to me*et al*l of them, and started to rely on the society to practice their citizenship and to participate in conjunction with the State. In this

perspective, the effectiveness of these rights is no longer only the State's duty, but everybody's duty (Mânica, 2005).

Indeed, the third sector can be understood as a configuration in which citizens have a State's typical, although not exclusive, duty (Mello, 1999). Similarly, Fernandes points out that (1997, p. 42)

The Third Sector consists of non-profit organizations, created and maintained by the emphasis on voluntary participation, in a non-governmental environment, continuing the traditional practice of charity, philanthropy and patronage, and expanding its meaning to other areas, thanks, especially, the incorporation of the concept of citizenship and its multiple manifestations in civil society.

The activities of the non-profit organizations can be classified as of private nature and public purpose. (Voltolini, 2004). For this reason, they receive broad government support, giving them titles and establishing agreements (management contracts and terms of partnership), enabling the transfer of resources to its funding.

In addition, they receive funds indirectly, through tax immunities in certain cases of contributions, and exemptions from other taxes, which positively impacts on the price of the activities provided.

Costing methods:

Choosing a method that is more interesting for a company depends on many factors but the most important is that the manager needs to know that no method implemented in an entity will be able to provide really complete information by itself. However, using a costing method adequate to the company's activities (i.e., that is as close as possible to the reality of the organization) adds value to its processes and makes the information generated by the accounting have greater utility in resource management.

Among the various existing costing methods, we highlight the Absorption Costing and Activity Based Costing (ABC). The way they appropriate the costs to the products or services and the methodology used for its apportionment are the main factors that differentiate these methods.

The Absorption Costing, according to Martins (2008, p. 37), constitutes in "the appropriation of all the production costs to the goods, and only the production ones; all expenses related to the production effort are distributed to all products made or services provided".

The Activity Based Costing - ABC is a system in which indirect costs are allocated to different units and, with the adoption of this methodology, the ABC "seeks to significantly reduce the distortions caused by arbitrary apportionment of the indirect costs" (Martins, 2008, p. 87). The organization is divided according to its main activities (in order to reach the final product) and, if necessary, the apportionments are made to allocate the costs to these activities.

The use of a costing method is fundamental to the management of the organization, but the choice of one or another method can only be made after a study indicating the best options for the organization, once the company's uniqueness is that will indicate which method is the best to use.

IDES/Promenor:

The *Irmandade do Divino Espírito Santo* – IDES (Brotherhood of the Holy Spirit) is a philanthropic Catholic organization, established as a non-profit civil charity association in the year 1773. In 1971, the IDES became the sponsor of the *Sociedade Promocional do Menor Trabalhador* - PROMENOR (Promotional Society of the Youth Worker), being called IDES/Promenor.

In order to manage and facilitate its social projects, the IDES/Promenor has its administrative headquarters located in Florianopolis. Its sponsor and leaders develop activities such as volunteer work at no cost to the institution. For managing the social projects and resources, it has in its organizational structure some staff and some trainees who develop multiple activities according to the demand of the social projects.

Currently, in the list of their projects, the institution assists the shelter *Lar São Vicente de Paulo*, the *Girassol* Child Education Center (CEIG), the Center of Art and Education (NAE) and the Center of Training and Employment (NUFT). In these environments, it assists approximately 1,100 children and adolescents aged 0-18 years in situation of social vulnerability. To develop its activities, the IDES/Promenor has in its organization chart thirteen (13) departments, which, for purposes of study, will be divided by programs: productive, philanthropic and auxiliary.

Production	Philanthropic	Auxiliary
NUFT	Chapel	Laundry
Shelter	Bazaar	Providership
CEIG	Museum	Kitchen
NAE	Holy Spirit Festival	Administration
	Rents	

Source: Research data (2014).

Fig. 1: Division of the IDES/Promenor departments by programs

Table 1: Costs of the IDES/Promenor.

Administrative and Financial Costs (AFC)
Water and Sewage
Household articles
Small Value Goods
Chaplaincy
Fuels and Lubricants
Commissions on rent
Condo fees
Conservation and Repair
Costs and Fees
Course costs
Banking fees
Computer Expenses
Software Expenses
Communications costs
Kitchen expenses/
Promotions / Parties / Events expenses
Transportation costs
Miscellaneous Expenses
Postage expenses
Electricity
Parking
Freelancers Fees
Taxes and Fees
Vehicle Maintenance
Maintenance and Repairs
Consumables
Office supplies
Cleaning and hygiene supplies
Safety equipment
Graphic material
Traffic tickets
Insurance Premiums
Advertising
Third Party Services
Traveling
Surveillance
Personnel costs (PC)
Financial – Board
Financial
Department of Human Relations (HR)
13 Salary
Interns
Guarantee Fund for Length of Service (FGTS)
Social Integration Program (PIS)
Social security
Labor claims
Salaries
Insurances
Meal Vouchers
Transportation Vouchers
Social Services Cost (SSC)
Medical / Dental Care
School and Teaching Supplies
General Expenses
Food goods
Personal Training
Clothing

Source: Research data (2014).

The production program includes the main departments of the institution, since they consume and collect resources to provide activities to the society. The philanthropic program comprises secondary activities, and its departments have the ability to consume and raise funds, but they are not the core activities of the institution. The auxiliary program, in turn, provides the necessary support to the development of the organization's activities. In this program there is the consumption of resources, but there is no raising of funds. Table 02 shows the categorization of the departments according to their characteristics. This categorization results from a study conducted by Laffin, Borgert and Pinheiro (2012) in an activity of the Department of Accounting of the Federal University of Santa Catarina.

Costs in IDES / Promenor:

Were identified all the costs incurred by the IDES/Promenor in the fiscal years of 2011 and 2012. In order to identify these costs, we used primary documents of the organization and information obtained in the interviews. To better disclose these expenses, a way to systematize them was created: their distribution into broad categories. The defined categories are: a) Administrative and financial costs; b) Personnel costs; c) Social assistance costs. The list of these costs can be seen in Table 1.

The adoption of a specific cost method for the treatment of its information enables better operationalization of the activities. Thus, the most suitable format to the needs and particularities of the organization, was the organization and structuring of the information appropriating the concepts and characteristics of the Absorption Costing. This means that, as recommended by the literature, all the organization's production efforts may be appropriate to its final service, what will happen is one definition to track the expenses and another to set the apportionment criteria of other expenses (Leone, 1983; Martins, 2008; Silva, 1999). It is also important to mention that in the cost model used, it can be with or without departmentalization. Again, due to the peculiarities of the IDES/Promenor, the departmentalization was used (using the departments shown in Table 1 for the allocation of the costs).

Among the items shown in Table 1, there are the indirect costs, i.e., costs that are not directly appropriate to the services. An assessment criteria was established to these costs so that it is possible to measure how much is applied to each product - in the specific case of this study, service (Martins, 2008).

The criteria for the apportionment of the costs are subjective and sometimes arbitrary. What is sought, however, is an approximation to what actually occurs in the IDES/Promenor. Martins (2008, p.86) points out that "it is absolutely necessary that the people responsible for choosing the criteria know the production process very well". In this sense, the methodological resource of the interviews with those responsible for each of the IDES/Promenor departments occurs as a fundamentally important option in this process. Table 2 presents some examples of costs and apportionments.

Table 2: Apportionments of indirect costs by department (in %).

Departments	Electricity	Water	Kitchen	Landry	Human resources staff salaries
NUFT	27,46	12,02	2,55	2,04	89,98
Shelter	18,08	38,46	15,07	69,86	1,67
CEIG	9,99	18,09	37,56	18,49	1,67
NAE	0,00	0,00	37,33	2,29	1,67
Chapel	2,28	0,46	0,00	1,20	0,00
Laundry	17,82	12,56	0,46	0,00	1,67
Providership	0,00	2,37	0,08	2,04	1,67
Kitchen	3,75	3,32	0,00	2,04	0,00
Administration	20,62	12,72	6,95	2,04	1,67
Total	100%	100%	100%	100%	100%

Source: Research data (2014).

The electricity is calculated through the meter, so each department has its specific value determined. The water apportionment is performed in accordance with the water points in each department. Regarding the kitchen, the separation is achieved by proportionality calculating the number of meals made and the number of meals eaten by each department. This methodology is also used in the laundry, being the metric based on the kilograms of the clothes washed. Salaries, on its majority, are equally divided for each of the productive and auxiliary programs departments. However, it was found to be important to differentiate the salary of the financial department and the staff responsible for the area of human resources. This differentiation occurs due to the increased load of works destined to the NUFT. Thus, the salaries of the human resources staff are distributed as follows: approximately 90% of the total value is destined to NUFT and the remaining 10% is destined to the other departments that are benefited from this service. This calculation was done based on the hours spent by these employees to the activities of each one of the departments.

From the information presented in this section and based on a specific costing method, it is possible to create a table of the data related to costs incurred by the IDES/Promenor, with the premise of optimizing their practices and contributing to the appropriation of information important for the preparation of different documents.

For the organization of the information of the programs, a detailing (like a "step by step") of the routines was delimited for the development of the accountability. The first step is to analyze the flow chart of the department, determining each one of the activities performed in this department. Subsequently, the chart of accounts and financial statements of the department were analyzed. The next step consists of the application of the objective and, based on this logic, it was possible to visualize the monthly cost of each department.

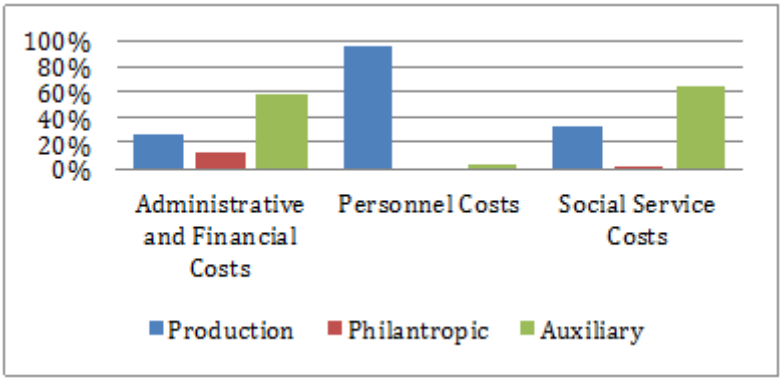
Discussion:

With the collected data and all apportionments made, it is estimated, then, the average costs incurred in the years 2011 and 2012. As shown, the most appropriate option for the organization of costs is based on the Costing Absorption with departmentalization. For the process of departmentalization, the costs of the Auxiliary Program departments were distributed to the other departments (Production and Philanthropic Programs) according to their needs and demands. Thus, the total cost of the Production Program and of each one of its departments were found out, as shown in Table 3.

Table 3: Cost of the Production Program (in R$).

Categories	NUFT	Shelter	CEIG	NAE
AFC	40.368,13	62.047,50	79.950,77	70.575,92
PC	2.786.914,15	822.898,69	357.086,92	353.929,39
SSC	11.314,90	29.026,84	52.044,47	51.939,66
DPT*	42.111,31	434.361,99	322.598,84	300.212,56
Total	2.880.708,49	1.348.335,02	811.681,01	776.657,53

*DPT: Departmentalization.
Source: Research data (2014).



Source: Research data (2014).

Chart 1: Proportion of the costs by programs

Given the identification, appropriation and categorization of the costs, it was possible that the data collected could be distributed within these categories, presenting, thus, a general overview of their behavior these. Chart 1 shows the representativeness of each of these categories in the different programs of the organization. With regard to the production program, 50% of the costs is due to the NUFT. The shelter accounts for 22% of this total, and the other 14% and 13% of total costs of the program are allocated to the CEIG and the NAE, respectively. This distribution is due to the scope of the project offered by the NUFT, involving a larger structure (in relation to the other departments) for the great amount of people served.

The overall idea drawn from the analysis of Chart 1 points out and corroborates what was presented in the conceptual framework and at the beginning of this topic: the philanthropic and auxiliary programs, even not corresponding to the core activities of the organization, are essential for their performance and, therefore, need to be analyzed. An important example that can be inferred from Chart 1 corresponds to the Administrative and Financial Costs and Social Services Costs, in which the auxiliary program features more representativeness. The systematization of the organization's costs would be configured quite differently and would present data completely distorted from the reality of the IDES/Promenor if the data regarding the departments of these programs were ignored.

Conclusion:

The research data enable to show to the managers (and to the other stakeholders) return on investments to the society in general. The information generated by the study raise important subsidies for the accounting and administrative sectors of the organization and, thus, they help in the routines of the IDES/Promenor.

The systematization of costs through Absorption Costing and their proper allocation to each one of the departments, make it possible to visualize the costs incurred by each one of the departments and programs and the consequence in the generation of information which later will be used to prepare different statements and documents.

It is understood that the contribution of theoretical nature of this research comes from the reflection of the appropriation of different concepts, coming from different disciplines, due to specific goal. The cost management research field has its bias turned to the industry and commerce, however,

science cannot be limited to those segments. According to a survey conducted in the first semester of 2013, looking for, in national and international journals (qualis stratum: A1, A2, B1 and B2; assessment area: administration, accounting sciences and tourism) and in Brazilian post-graduation programs in administration and accounting, publications in the last five years, with the expressions cost management, non-profit organizations and third sector organizations, it was noticed that studies directed to the TSOs' costs are not very common.

In this sense, aware of the gap in this area of knowledge, this work aims at contributing to the theoretical field of cost management for/in the TSOs. Albuquerque (2006, p. 17) emphasizes that the major challenge in the Third Sector field of knowledge is to insert this topic in the major fields of the classical disciplines, promoting the dialogue between different areas and building more solid theoretical basis.

From this perspective, it is thought that adjusting concepts and methods applied to the commerce and industry segment and incorporating them to the NPOs, contributes to the development not only of the management field but, also, from the perspective of the civil society as a whole.

Under the practical perspective, the research found out an important connotation regarding the optimization of the processes of data organization and cost information so they can be transformed into new information through accountability documents. This dynamics of the activities allows more time to be spent on more substantial activities of the entity. Another important benefit regards the exposure of the information, which, due to the systematization, will be better, faster and of easier visualization and interpretation.

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