

CONJUNCT CONSULTING CASE STUDY SERIES

SREE NARAYANA MISSION: ENHANCED COST UTILISATION

A COST ALLOCATION STUDY



ABOUT SNM

Sree Narayana Mission (Singapore) ("SNM") is a registered charity and an Institution of Public Character ("IPC") in Singapore. Founded in 1948, it is one of the nation's leading charitable organisations, operating a range of welfare programmes dedicated to helping the community at large.

Mission Statement

To serve with care and compassion, regardless of race, religion and language.

Vision Statement

Keeping faith with the philosophy and teachings of Sree Narayana Guru to provide social and community services.



PROJECT OVERVIEW

SNM has recently restructured its internal divisions to include a Shared Services Division (SSD), allowing them to centralise back end operations and further support other departments.

SNM would like to optimise its SSD model to align with their strategic goals for the future. A detailed understanding of the current cost allocation model for the Shared Services Division would give SNM better insight into their operations and how they contribute to SNM's impact. These learnings will also allow SNM to determine how to feasibly optimise their model to contribute to enhanced operations aligned with their strategic goals.

OBJECTIVES

The purpose of this collaboration was to help SNM develop and implement a robust shared services cost allocation model.

The costing model feeds into a broader picture of streamlining the internal budget process, as well as improving overall accountability to funders and donors.

This ensures that the costs incurred by the shared services division is distributed in a fair and transparent manner to SNM's programme divisions and in line with its high standards of governance.

PROJECT ROADMAP

METHODOLOGY

With the array of support for the 6 programme divisions that SNM has, Conjoint Consulting proposed to develop an Activity-Based Costing ("ABC" model for SSD's work. Focus was placed on SSD's support given to the divisions according to SSD's 10 core functions. To ensure consistency in the model, rigorous internal and external analyses was conducted.

EXTERNAL SCAN

- Secondary research of 1~2 suitable best practices in costing model for shared services relevant to SNM.
- Identified suitable framework and indicators for ABC.



INTERNAL ANALYSIS

- Latest financial statements, previous cost estimations were reviewed and stakeholders were queried and interviewed.
- Project's desired goals were identified.
- Structures and processes of the divisions were scanned to understand key activities, cost pools and cost drivers.
- Key gaps in previous cost estimations were identified.



DEVELOPING THE MODEL

- Model of key activities with time spent by SSD based on:
 - Data collected + assignment of direct/indirect costs.
 - Inputs from SSD and time spent on key activities.
 - Time spent validated with division heads to ensure buy-in for the costs that will affect each division's budget

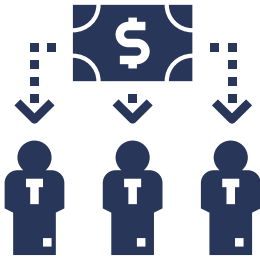


PROJECT ROADMAP

INDUSTRY ANALYSIS OF COSTING MODELS

- Through an external scan, Conjunct evaluated industry standard costing models across 3 key criteria - **(1) Suitability, (2) Accuracy and (3) Time & Resources Required.**

Industry Standard Costing Models



Traditional Job Costing



Process Costing



Activity Based Costing (ABC)

- The **ABC model** was recommended, as it ranked the best across all 3 criteria. For service-based organisations like SNM, ABC is the most suitable and accurate.
- (Overview)** To implement ABC, Conjunct and SNM developed 3 enablers:

Determine dollar value of cost pool (e.g. Salary..) of each SSD functions.

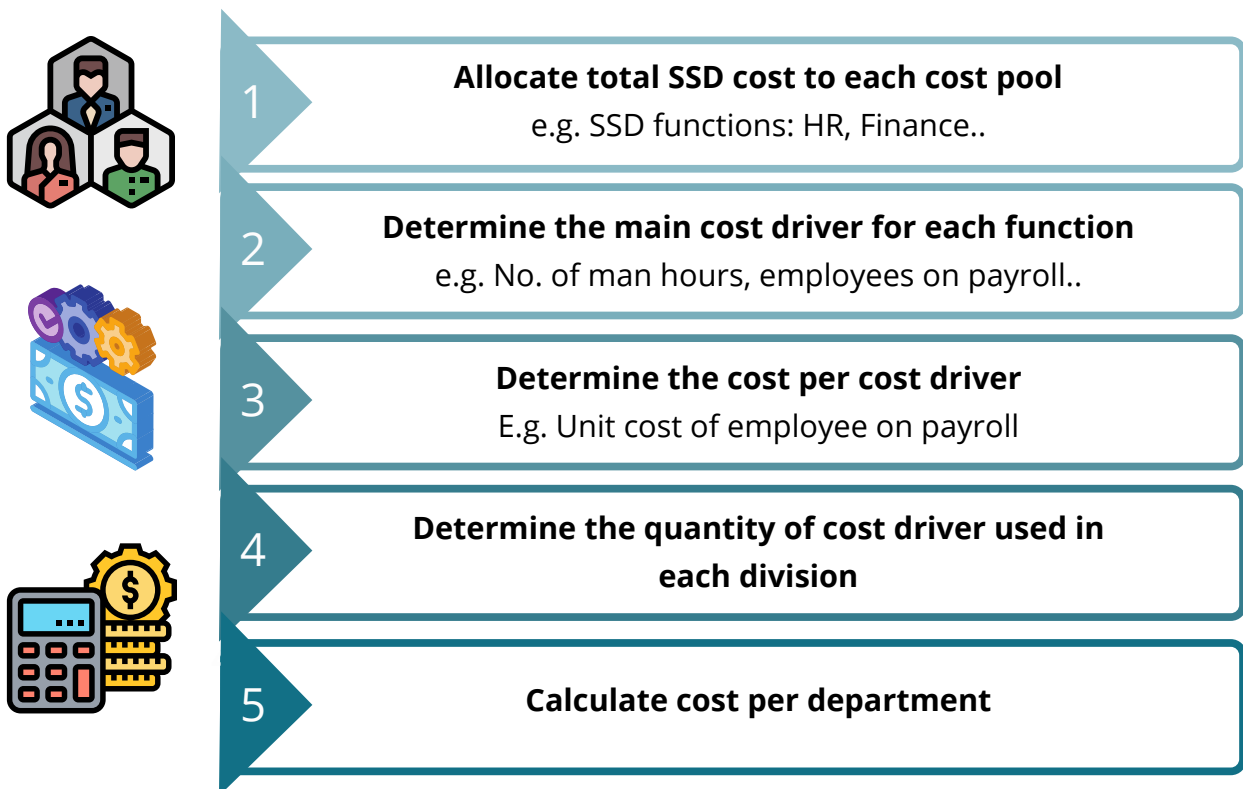
Identify cost drivers (Activity/Factor) for each SSD function that is common across divisions.

Implement a feasible tracking mechanism across SNM to track the quantity of cost drivers.

PROJECT ROADMAP

ALLOCATING SSD'S COSTS TO ALL DIVISIONS

- Using a **5-step methodology**, the ABC model sought to accurately allocate SSD's costs to all SNM divisions.



- As SSD had many line items of cost**, Conjoint narrowed the focus and classified them under 3 different categories.

Different methodologies were adopted to address the different categories of expenses. This ensured that the greatest material costs (salary) were allocated fairly according to the amount of help SSD provides to the respective divisions.



PROJECT ROADMAP

TRACKING AND ALLOCATING SALARY COSTS

- To track and allocate salary-related and salary costs efficiently, Conjunct adopted a 3-step process:

1. Sum up the **salary costs** of each SSD function to determine their individual cost pool base amount.

2. Allocate **salary-related** costs into individual cost pools base amount.

3. Allocate each function's final cost pool to SNM divisions via cost drivers.

IDENTIFYING & DETERMINING COST DRIVERS



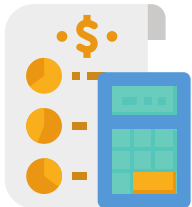
Primary interview and research insights were used to justify **salary-related** cost drivers.



External research on similar service-based NGOs was used to benchmark **non-salary related** and overhead cost drivers.

PROJECT ROADMAP

BEFORE: COST ISSUES FACED



- **Cost Tracking** - Tracking system for costs incurred across SSD functions has room for improvement in accuracy, as costs are allocated based on estimates to each function (Cost pool).



- **Cost Allocation** - Cost allocation to SNM divisions are estimates, which can lead to inequitable cost allocation to certain divisions.

SOLUTION / DELIVERABLE: ABC EXCEL MODEL



1. The dollar value of each driver is hard-coded into the model (e.g. salary and salary-related expense is the total cost of finance function cost driver)

2. The unit cost of each cost driver is automatically calculated by the model. This helps us to allocate the cost of each SSD function to the rest of the divisions.



3. The model uses a cost driver tracking sheet to track the quantity of cost drivers used for each division.

4. With the quantity and unit cost of each cost driver, the costs of each cost pool can be automatically allocated to each division.



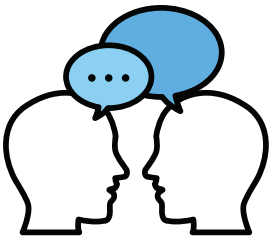
LEARNINGS

01 KEY STAKEHOLDER PERSPECTIVES ARE CRUCIAL FOR ACCURATE COST ALLOCATION



Conducting primary interviews with key stakeholders allowed SNM to gain detailed insights on each SSD function and the type of support they provide to SNM divisions. With a comprehensive understanding of each key stakeholder's perspectives, suitable cost drivers could be proposed and justified, allowing SNM to allocate costs fairly and accurately.

02 EFFECTIVE INTERNAL COMMUNICATION IS NEEDED FOR A SUCCESSFUL IMPLEMENTATION



While the ABC model would be mainly edited by the finance function, it requires the cooperation and inputs of all functions and divisions. Function heads have to provide accurate and timely cost inputs, while division heads have to provide the quantity of cost drivers in order for the cost model to work effectively. This understanding encourages SNM to focus on internal communication processes.

03 ADAPTABILITY AND DILIGENT TRACKING IS KEY TO A SUSTAINABLE ACCOUNTING MODEL



Equipped with a tailored ABC model, SNM is now able to allocate costs efficiently. However, it is important to keep the ABC model updated in terms of existing cost drivers (function main activity changes) or new cost drivers (new staff member / activities). This ensures that the accounting model stays relevant and costs are allocated fairly.

CONCLUSION



The results of the project served SNM in many ways. SNM now has a tailored cost-model and guide, helping them to measure and accurately account for costs incurred by the Shared Services Division (SSD) based on the agreed-upon cost drivers. The improvements are being implemented in phases based on prioritisation.

Large charitable organisations often face complexity when it comes to tracking and accounting for costs incurred by their support divisions. Developing relevant and effective costing models such as this helps to improve SNM's ability to understand where money is going, make decisions concerning the distribution of resources amongst various cost projects, account to its stakeholders where costs went into, and empower them to better support the community.



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