

# Preface

This book has three aims:

- to advance the understanding of financial management in not-for-profit organizations;
- to contribute to the wider debate of what is different about non-profit organizations;
- to facilitate discussion countering the view that charity accounting is simple and that financially managing a charity is not of the same complexity as found in commercial organizations.

The need for such a book grew out of the dissatisfaction we have with the current literature on non-profit accounting. While there are many good accounting texts written for practitioners working in the charity sector, most are purely descriptive in that they are 'technical literature' texts. While useful, they do not place financial activity and the role of the finance manager within the wider external environment in which voluntary organizations have to operate.

This book provides technical instruction with illustrative examples and exercises but it is also analytical, critical and thematic. Voluntary sector accounting and finance is examined within a perspective that goes beyond description. For example, our discussion on reserves goes beyond calculation and financial prudence to consider the issue within the context of the organization, and accountability. This book is written for finance directors, general managers and students who will already be conversant with a general understanding of accounting and finance as taught on most Business School courses and in professional accounting examinations. While the book will introduce and provide a description of the main applications of accounting and finance applicable to the role of financial manager, it will quickly move into application and understanding, using examples from our own work in this field. However, we will also draw upon and lead the reader to follow debates from other writers. It is our intention that such an approach will both inform the reader in making their own critical judgements and contribute to the understanding of the distinctiveness of voluntary sector accounting and financial management.

It has been our intention in writing this book to provide a foundation for charity accounting and financial management; to progress from these being seen as a relatively unsophisticated backwater. It is also to recognize that the accounting and finance of voluntary organizations pose as many difficulties and challenges as those for major for-profit corporations. Indeed, we would make a bold statement to the effect that the financial management of voluntary organizations is in fact more complex, given the absence of the profit motive upon which much traditional accounting, finance practice and theory has been developed. In addition, the role of the charity finance director contains components that make the job more complex than their private sector counterpart. We would suggest that much of this complexity does not exist within the finance function internally but in the external environment within which charities operate. The finance director who believes that their job begins and ends with the accounts is rapidly becoming a figure of the past. Voluntary organizations in the next century face both opportunities and considerable threats. As the private sector retailer Marks & Spencer found in the late 1990s, being a venerable retailer with a glorious past of quality service provides no guarantee of continuing success. Large charitable institutions of a century or even a half-century in existence (for example the RNIB; Bruce 1994) will have to continually update and reinvent themselves if they are to survive. The finance director in such organizations will need to be a proactive person who understands the external environment in which the organization operates, while internally addressing the needs of the myriad of stakeholders within the charity. As we argue in this book, the lack of equity shareholders – the final and ultimate decision maker in a commercial organization – makes the task harder rather than easier. Charities have ‘external customers’, some of whom may not have economic power as commercially defined customers, which have been traditionally and historically defined by charities as beneficiaries. However, charities also have customers who do have resource power, and who are increasingly becoming more demanding. Government, government agencies and organizations, such as the Community Fund, are setting down as a condition of their funding, issues of accountability and governance. As recent and authoritative statistics on the funding of the sector confirm (NCVO 2000), traditional charity income as defined by donations has been stagnating in the 1990s. Selling Goods and Services defined by the Office for National Statistics as

Sales means income from the provision of specific goods or services provided to the customer under contract, or through direct payment by the client or beneficiary. Usually there is an identifiable price per item of goods or unit of work done applicable to all customers (subject to discounts). The nature of such sales will depend upon the sort of work which your organisation is doing, for example, patient care or residence fees, sales of goods made in sheltered workshops and hire of rooms for meetings.

(Palmer *et al.* 1999, p. 122)

now accounts for a third of the sector’s income (NCVO 2000).

The modern charity finance director needs to be both a commercial and a financial director. They could be accounting for a shop chain of some 850 outlets with an income of £57 million (Phelan 2000), but in addition to their accounting skills they also require other skills that their accountancy training would not have prepared them for. The finance director who also operates in a non-profit environment does so without the certainty of taxation revenues, which their public sector counterpart enjoys. The charity finance director has no shareholders, with no normal commercial accounting ratios to benchmark performance, for example return on capital employed, and reports to a 'Board of Directors' who are known as trustees. They have 'Bosses' who are not allowed to be paid for their time, appointed for a variety of reasons, of which commercial knowledge and the understanding of accounting and finance are not the primary reason for appointment or indeed their motivation for doing the 'job' (Harrow and Palmer 1998).

It is these unique environmental, managerial and philosophical aspects of voluntary organizations, as well as the technical specialist characteristics of financial accounting, auditing and taxation, that make the role different. In this book we explore them in detail and illustrate them in the real environment.

A final word on the text. Within the book there are illustrated examples, and at the end of some chapters, exercises with recommended answers. For tutors, students and practitioners seeking more exercises, we would recommend *The Good Financial Management Training Guide* written by Paul Palmer and published by NCVO. This booklet has numerous governance and computational exercises in accounting and tax.

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