

MANAGEMENT AND ASSESSMENT OF FINANCIAL RESOURCES

Complementary Note by A.J.N. Judge, Assistant Secretary General, UAI

An international nonprofit organization has accounting and financial problems which have many features in common with those of profit organizations. The most fundamental problem is to maintain the financial equilibrium of the organization or any independently financed programme (e.g. an international conference). In every case the amount of money coming in should exceed the amount of money spent (unless future income from other sources is expected, e.g. bank loans or subsidies). When a particular organization has many different sources of income and many more types of expenditure, it is not immediately obvious whether financial equilibrium is being maintained — sometimes this is only found out after the damage has been done. Techniques are required to detect over a period of months or years any slow trends towards a dangerous financial situation. Such techniques have been developed for profit organizations.

There are however other forms of disequilibrium which are of vital interest to the secretary-general of an international organization. One which is most often reported in the press is the proportion of income which goes to meet administrative overheads as compared to that which is actually used directly on the programmes of the organization. If, for example, one disaster relief fund-raising organization spends 35 % on administrative overheads and another spends 20 %, it could be deduced that allocation of funds to the second organization results in 15 extra cents per dollar to actual relief operations in comparison with allocation of funds to the first. The first organization, armed with this information, could then evaluate its own operations to see whether funds were not in fact being spent on non-essential overheads. Alternatively its members and the public could be reassured that the extra 15 % was in fact being used for an educational programme, for example, which contributed indirectly to the long-term objectives of the organization. Another ratio, which has been of significance to INGOs in recent discussion of the relationship between INGOs and UN Agencies, is the percentage of income derived from national governments as compared to income from other sources. Such discussions can be considerably clarified if a definite percentage figure can be used to give precise

significance to a range of funding situations, (e.g. a ratio of 90 % means something completely different from 20% or 5%).

No doubt it would be an advantage to anticipate similar debates by determining one appropriate ratio for the INGO programme funds spent in, or for, developing countries as a percentage of total expenditure, (e.g. a ratio of 5 % means something completely different from 60 %). Should the social problems and wastage, arising from the tendency of organizations to formulate and implement programmes in isolation from one another, continue, a standard INGO ratio may eventually be defined to indicate the proportion of expenditure allocated to coordination with other bodies (or even to multidisciplinary and ecological programmes — if the environmental situation becomes critical enough).

From the above it is possible to note four types of assessment of financial operations. (a) The first is an individual organizations evaluation of its own balance sheet and income and expenditure at the end of every year to determine whether it is « in the black » or whether special measures must be taken. Financial problems are handled as they arise but cannot be predicted. This is known in business as the « fire-fighting » approach. (b) An organization can however compare its balance sheet and income and expenditure with those for previous years and note changes, not only in the absolute amounts but particularly in the relationships between different items on the financial statements (e.g. is the percentage of income from members' contributions increasing or decreasing in relation to total income — if the latter, what can be done about the organization's membership policy). (c) But neither of the two preceding methods can show the real success or failure of an organization's management of its financial resources. This can only be done by comparison with other organizations with similar programmes and operations (in financial terms, not necessarily in terms of the objectives of the programmes). It is only in this way that an organization can recognize a possible cure to its problems as shown by the following example.

Supposing an organization's membership income was decreasing over the years, and on comparison

of its expenditure with those of a second organization with similar programmes it discovered that the latter spent 10 % of its income on a news bulletin to members (compared to its own 5 %), 8 % of its income on external and public relations (compared to its own 2 %) and 40 % of its income on salaries (compared to its own 65 %). This sort of knowledge contains vital suggestions for reflection on the budget and programme priorities of the second organization. Note that conclusions from such figures can only be tentative but they do suggest where a good hard look is necessary, even if the conclusion is merely that the first organization is dealing with a more easily influenced membership and does not need the more highly qualified (and therefore higher paid) staff required by the second.

(d) Selecting one organization against which to compare one's budget figures is risky. The organization may be in an exceptionally better or worse position than one's own. In both cases conclusions from the comparison will lead to erroneous decisions. If it is exceptionally worse, one may relapse into complacency. Clearly the only way around this problem is to obtain comparable financial statement data from a good sample of other similar organizations. The percentage statement figures averaged over all these organizations will then give a much more realistic picture against which to compare one's own organization's percentage figures. (The absolute figures are not required because it is only the relationship between different absolute figures that provides a comparable measure of equilibrium — the same percentage may be a valid measure of equilibrium in both a large and a small organization). The techniques required to compare organization financial performance using what is called an « industry average » are of course highly developed as a guide to managers and investors in the case of business corporations. It is recognized that it is not meaningful (except in the case of return on investment percentage) to compare organizations which operate in different ways, for example, an engineering consultancy firm and a shoe manufacturing firm. It is however useful to compare organizations in the same industry with approximately the same characteristics, e.g. heavy engineering firms, or retail stores. The detailed classification of industrial and commercial bodies is highly developed in order to facilitate this sort of meaningful comparison. The same approach has been used for comparison between nonprofit organizations with similar operations. This has been done in the United States for some 700 trade associations, namely nonprofit associations with professional or profit-oriented members. In order to succeed, a standard method of presenting financial information had to be developed. The whole project was carried out by the American Society of Association Executives. It resulted in the

publication of an « Operating Ratio Report.» (1) The approach used and the results indicate that there is no reason why a similar approach of equivalent interest should not be prepared to facilitate comparison between INGOs which can be classified into appropriate groups.

Five steps need to be taken :

1. A comparable system of reporting financial information needs to be developed for INGOs.
2. A classification of INGOs is required which could lead to meaningful comparison between INGO ratios within the same category.
3. A questionnaire would have to be sent to INGOs in each category requesting financial statement details in the framework developed under point 1. This raises the whole problem of confidentiality of financial data. For some INGOs this is no problem, for others precautionary measures must be taken, or they could be excluded from the survey. Note that it is not necessary for the absolute figures to be given — only the percentage figures are required.
4. The questionnaire data must then be analyzed into the form of easily understandable tables. Two tables from the American Society of Association Executives survey of 1800 U.S.A. national organizations are included in this Note. Each table represents a different set of categories (The Operating Ratio Report in fact consists of 19 such tables). The first example (Annex 1) shows the summary of the replies of 50 national professional associations (primarily individual membership). This category is then split further by size of budget into 7 sub-categories. The second example (Annex 2) shows the summary for 233 regional, state and local associations (primarily company membership). Here however the subcategories are chosen by area of nonprofit trade association activity (respectively : Service Trade, Manufacturing, Distribution, Financial / Banking / Insurance, Construction, Transport, and Other Associations).
5. Following the analysis, it is possible to deduce certain trends from the data in the tables. These trends and the above tables could then be made available to INGOs so that they could compare their own operating performance against the average for INGOs in which ever category they consider most resembles their method of operation. (2)

- (1) American Society of Association Executives. 1967. Association Operating Ratio Report. Washington, ASAE, 1967, 36 p.
- (2) In this connection it is worth noting that the American Society of Association Executives has produced :

INGOs may yet see the day when the public, members, UN Agencies and foundations will all want to see five or six standard financial (or related) ratios for an INGO compared against average ratios for other INGOs with similar programmes. If the comparison is unfavourable, the public may decide to donate to (or become members of) & more effective fund user, members will ask sharp questions about the management of the INGO, and UN Agencies and foundations will allocate funds preferentially to

Polices and procedures of associations. Washington, ASAE, 1968 which is a comparative analysis of financial and nonfinancial characteristics of 1326 U.S.A. national associations.

A set of publications which contains articles on the financial management of national nonprofit associations has been prepared by the Chamber of Commerce of the U.S.A. (Institutes for Organization Management Department) : Studies in Organization Management, Washington, 1965, 3 vols. (349 p., 260 p., 283 p.) plus an Association Management Workbook. A considerable effort in the direction of multilingual standardization of accounts has been made in the following and related publications :

M.H.E.R. Mommen. La gestion financière des organisations internationales non gouvernementales et toutes autres sans but lucratif. Bruxelles, Conseil international des praticiens du plan comptable international, 80 p., stencillé.

« competitor » INGOs. Agencies must obviously strive to make best use of the funds they have available.

This may reach a stage when ratios for all INGOs will be systematically reported on a weekly or monthly basis in special fund giving agency journals in the same manner as are share prices and dividend yields.

On the basis of a comparison between the quoted ratios, funding might then be withdrawn from the unsuccessful INGOs in order to be made available to the INGOs with more efficient (3) programmes (thus further modifying the « funding » ratios quoted). At first sight this may not appear feasible since each INGO has different programmes, but in fact UN Agencies already have to make such a choice. As an example, 5 to 10 INGOs may be qualified to organize « literacy » or « youth training » seminars in a particular developing country. This dynamic funding environment would be particularly relevant when governments have moved over to the Policy, Programmes and Budgeting System of managing their funds.

- (3) For the problems of evaluating « effectiveness » as opposed to « efficiency » see : A.J.N. Judge. Evaluation of international organizations. « International Associations », 1969, n° 3, p. 141-147 bibl.

Résumé français de l'article page 287

ADMINISTRATION ET REPARTITION DES RESSOURCES FINANCIERES

Les OING ont des problèmes financiers et budgétaires tout comme les sociétés commerciales. L'essentiel est de maintenir l'équilibre financier par une juste balance des recettes et des dépenses, par une provision budgétaire adéquate qui reflète les buts poursuivis par l'organisation, par le maintien d'une proportion raisonnable entre les revenus d'origine gouvernementale et ceux en provenance d'autres sources.

Les OING peuvent évaluer leur situation financière de plusieurs manières : comptabiliser à la fin de chaque année leurs recettes et leurs dépenses afin de dégager un résultat positif ou négatif; comparer les chiffres de recettes et de dépenses avec ceux des années précédentes pour déceler à la fois les changements absolus et les changements proportionnels; comparer les chiffres budgétaires avec ceux d'organisations similaires. La comparaison avec une seule organisation ne serait pas

suffisante. Cette technique est largement utilisée dans le monde des affaires et a été adoptée avec succès par les ONG, notamment aux U.S.A.

Certaines adaptations seraient nécessaires pour les ONG internationales : un système d'information sur les rapports financiers devrait être développé; les OING devraient être rangées en catégories de façon à pouvoir établir d'utiles comparaisons; les ONG devraient répondre à une enquête sur les questions financières (d'où les problèmes de renseignements confidentiels); les données devraient pouvoir être soumises à une analyse simple. Certaines tendances, révélées par l'analyse, devraient être portées à la connaissance des OING. Un tel système pourrait rendre éventuellement possible une évaluation des OING en termes de normes financières.

1

COMPOSEES SURTOUT DE MEMBRES INDIVIDUELS

Nombre d'associations : 50

Professions

RECETTES	Classées selon l'importance du budget (en milliers de dollars)								
	moins de 100	de 100 à 200	de 200 à 300	de 300 à 500	de 500 à 1000	de 1000 à 2000	plus de	ensemble des sous-groupes	
								en %	en \$
1 Cotisations, droits d'entrée	% 73,4	% 47,7	% 48,7	% 47,9	% 36,5	% 49,7	% 23,5	% 32,5	19.313.692
2 Contributions ou versements spéciaux	0,1	1,8	2,5	0,1	0,3	0,8	0,6	0,7	389.033
3 Vente d'articles divers, livres, etc.	1,3	0,6	3,2	4,5	10,8	7,9	6,6	6,8	4.053.077
4 Expositions et foires commerciales	7,4	2,8	4,1	6,6	11,1	6,7	3,2	4,8	2.837.758
5 Enseignement et formation	0,0	1,2	1,2	5,1	3,5	6,9	2,5	3,5	2.073.166
6 Fourniture de services	0,0	0,0	0,0	0,2	0,2	2,1	1,3	1,2	715.038
7 Placements	1,0	1,7	3,3	2,0	0,8	2,4	2,7	2,4	1.458.241
8 Publicité et abonnements	8,4	17,1	25,3	21,7	29,1	12,7	50,1	38,0	22.587.722
9 Réunions et conventions	6,1	23,6	10,6	5,9	3,0	2,9	2,2	3,3	1.965.063
10 Divers	2,3	3,5	1,1	6,0	4,7	7,9	7,3	6,8	4.072.887
11 RECETTES TOTALES	100,0	100,0	100,0	100,0	100,0	100,0	100,0	100,0	
DEPENSES DE PERSONNEL									
12 Montant total des traitements	30,4	27,8	28,4	28,3	26,6	32,8	34,5	32,8	19.509.994
13 Impôts sur les traitements et assurances	1,1	1,8	1,0	0,8	1,0	1,1	1,1	1,1	623.226
14 Hospitalisation et assurance du personnel	0,0	0,0	0,4	0,4	0,4	0,4	0,2	0,3	165.676
15 Retraites	0,0	0,7	1,1	1,7	1,6	1,5	2,2	1,9	1.152.738
16 DEPENSES TOTALES DE PERSONNEL	31,5	30,3	30,9	31,2	29,6	35,8	38,0	36,1	21.451.635
AUTRES DEPENSES									
17 Voyages du personnel	2,5	2,8	1,7	2,3	2,7	2,7	2,5	2,6	1.489.456
18 Voyages liés aux réunions des comités et du conseil de Direction	2,9	2,3	2,8	3,8	2,2	3,0	1,5	2,0	1.197.442
						1,0	0,8		
19 Autres dépenses au titre des comités et du Conseil de Direction (NIA)	0,4	0,4	1,3	3,6	0,3			0,9	547.676
20 Locaux	3,4	2,3	3,9	5,3	2,6	3,9	4,9	4,4	2.623.041

NIA ; Non indiquées ailleurs

AUTRES DEPENSES (suite)	Classées par catégorie									
	CS	Fab.	Distr.	FBA	Constr.	Trans.	Autres	Ensemble des catégories		
								%	S	
21 Fournitures de bureau et travaux d'imprimerie	5,2	4,0	4,8	2,0	5,6	1,6	3,7	4,0	1.507.141	
22 Equipement de bureau	1,4	0,9	2,7	0,5	1,1	1,0	0,9	1,1	416.316	
23 Téléphone et télégraphe	2,2	1,5	2,1	1,3	2,1	1,8	1,3	1,7	641.122	
24 Affranchissement, messageries et fret	2,1	2,1	2,3	1,0	2,2	6,1	1,4	2,2	815.282	
25 Redevances et contributions	2,7	1,5	2,3	8,2	6,5	0,9	3,8	3,4	1.294.531	
26 Abonnements et. publications	0,3	1,0	0,8	0,2	1,1	0,2	0,6	0,8	285.320	
27 Honoraires	3,0	2,1	2,0	2,4	3,6	7,1	1,2	2,6	992.621	
28. Travaux extérieurs de recherche	0,1	1,0	0,1	0,7	0,6	0,3	0,9	0,7	256.635	
29 Relations publiques	2,3	1,4	1,1	5,3	4,5	0,7	1,6	2,4	894.450	
30 Publicité	3,0	10,7	3,8	19,1	0,8	3,5	0,8	7,5	2.837.445	
31 Activités pédagogiques	1,0	1,0	1,1	1,1	1,4	0,1	0,1	0,9	346.407	
32 Réunions des membres et conventions	4,9	3,4	5,8	9,2	9,5	2,8	4,0	5,4	2.042.497	
33 Expositions et foires commerciales	3,5	1,9	2,9	0,1	1,6	0,0	4,4	2,0	756.602	
34 Manuels	0,3	0,3	2,3	0,3	0,1	10,5	0,4	1,1	413.725	
35 Obtention de services	0,4	0,3	1,8	0,2	0,4	0,1	0,0	0,4	199.555	
36 Périodiques	2,9	1,1	1,0	2,1	1,2	4,9	12,8	2,8	1.044.500	
37 Divers	5,5	9,0	4,4	1,8	7,6	5,3	3,5	6,3	2.387.640	
38 TOTAL « AUTRES DEPENSES »	52,3	54,2	53,0	65,7	59,2	52,8	53,2	55,9	21.068.435	
39 Excédent	6,7	1,5	0,7	4,6	8,7	1,5	4,9	3,7	1.385.887	
Part du sous-groupe dans les recettes totales	9,4	37,9	10,0	12,6	14,3	6,0	9,8	100,0		
Effectifs du personnel	215,0	737,0	182,0	181,0	192,0	95,0	232,0	1834,0		

Source : American Society of Association.
Ernst and Ernst (Comp.) Association Operating Ratio Report, 1967.
Washington, American Society of Association Executives, 1967.

ASSOCIATIONS REGIONALES, ETATIQUES ET LOCALES Annex 2 COMPOSEES SURTOUT DE MEMBRES COLLECTIFS

Nombre d'associations : 233

Classées par catégorie

RECETTES									Ensembles des catégories	
									en %	en \$
CS	Fab	Distr.	FBA	Constr.	Trans.	Autres				
1 Cotisations, droits d'entrée									%	%
									53,0	75,4
2 Contributions ou versements spéciaux									8,3	3,2
3 Vente d'articles divers, livres, etc.									1,0	1,3
4 Expositions et foires commerciales									12,0	3,2
5 Enseignement et formation									1,0	1,2
6 Fourniture de services									3,4	4,4
7 Placements									2,2	1,5
8 Publicité et abonnements									6,4	1,7
9 Réunions et conventions									2,9	2,7
10 Divers									9,8	5,4
11 RECETTES TOTALES									100,0	100,0
DEPENSES DE PERSONNEL										
12 Montant total des traitements									37,2	38,8
13 Impôts sur les traitements et assurances									1,3	1,7
14 Hospitalisation et assurance du personnel									0,5	0,7
15 Retraites									2,0	3,1
16 DEPENSES TOTALES DE PERSONNEL									41,0	44,3
AUTRES DEPENSES										
17 Voyages du personnel									4,2	6,4
18 Voyages liés aux réunions des comités et du Conseil de Direction									1,8	0,5
19 Autres dépenses au titre des comités et du Conseil de Direction (NIA)									0,7	0,8
20 Locaux									4,8	3,6
										0,5
										0,2
										0,9
										0,0
										0,8
										0,6
										214.846
										418.619
										1.864.519
										1.478.653

AUTRES DEPENSES ' (suite)	Classées selon l'importance du budget (en milliers de dollars)									
	moins de 100	de 100 à 200	de 200 à 300	de 300 à 500	de 500 à 1000	de 1000 à 2000	lus de	ensemble des sous-groupes		
								en %	en \$	
21 Fournitures de bureau et travaux d'imprimerie	12,9	2,7	3,8	2,8	4,2	4,8	3,9	4,0	2.394.468	
22 Equipement de bureau	1,0	0,9	0,9	2,1	1,0	0,8	1,2	1,2	692.993	
23 Téléphone et télégraphe	2,4	0,8	1,1	1,3	1,1	0,9	0,9	0,9	561.843	
24 Affranchissement, messageries et fret	3,7	2,0	1,3	2,0	3,4	1,7	1,5	1,8	1.037.889	
25 Redevances et contributions	0,2	0,1	1,0	0,8	5,4	1,3	0,1	0,8	479.021	
26 Abonnements et publications	6,4	2,5	9,4	2,4	0,1	0,1	0,4	0,8	457.661	
27 Honoraires	0,7	1,0	1,9	1,0	0,8	1,5	0,9	1,0	617.266	
28 Travaux extérieurs et de recherche 0,0		0,0	0,6	1,8	0,0	1,0	0,7	0,8	451.118	
29 Relations publiques	0,0	0,2	2,2	1,0	2,9	1,3	1,5	1,5	912.847	
30 Publicité	0,4	0,2	3,1	0,0	1,2	1,4	0,7	0,9	558.684	
31 Activités pédagogiques	0,0	1,5	0,0	2,8	2,1	3,8	1,5	2,0	1.212.000	
32 Réunions des membres et conventions	3,2	21,8	11,1	8,6	3,0	5,8	2,3	4,1	2.422.158	
33 Expositions et foires commerciales	5,1	1,6	5,1	0,9	1,4	3,0	0,7	1,4	848.436	
34 Manuels	3,5	0,1	1,4	6,0	3,7	4,8	2,3	3,1	1.815.392	
35 Obtention de services	0,2	0,2	0,1	0,2	0,3	0,6	0,1	0,2	141.183	
36 Périodiques	14,6	17,5	9,2	10,2	20,8	8,3	22,7	18,5	11.013.324	
37 Divers	6,2	1,2	4,8	2,9	6,7	7,5	5,4	5,7	3.386.531	
38 TOTAL « AUTRES DEPENSES »	69,7	62,1	66,7	61,8	65,9	59,2	56,5	58,6	34.850.440	
39 Excédent	(1,2)	7,6	2,4	7,0	4,5	5,0	5,5	5,3	3.163.605	
Part du sous-groupe dans les recettes totales	0,5	1,8	3,2	6,0	8,4	18,9	61,2	100,0		
Effectifs du personnel	15	47	78	153	200	473	2.166	3.132		

Source : American Society of Association. Ernst and Ernst (Comp.), Association Operating Ratio Report, 1967, Washington, American Society of Association Executives, 1967.

