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STREETSMART NONPROFIT MANAGER

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Separate Responsibilities

Assets are for boards: Activities are for managers

Here is a simple guideline for all those pesky questions about financial management roles and responsibilities: Assets are for boards. Activities are for managers.

To put it in shorthand, boards should spend most of their financial decision-making time on the balance sheet and managers should spend most of theirs on profits and losses.

The enduring assets and liabilities of an organization are the board of directors' responsibility, while the day-to-day affairs of procuring revenue and incurring costs are the province of managers. To say it another way, boards of directors need to focus primarily on the balance sheet, while managers need to focus on profits and losses

Big decisions of the kind boards must make have their own life cycles.

(note that the technical terms for these two reports are the "statements of financial position" and "statement of activities," respectively). This conceptual razor slices the world of nonprofit accountability into two neat pieces that can be easily understood by everyone from financial wizards to the numbers-challenged.

There's an important nuance here -- executives, as distinct from managers, share leadership responsibilities with the board. Executives must be firmly rooted in the board's asset work while being knowledgeable about the activities of their managers.

The chief distinction between board and executive in this regard is that there are usually more board members than top executives, but the executives are full time.

The chart summarizes some of the reasons why the assets/activities distinction works. The first element is related to the appropriate time frame for the two groups. Boards of directors, including executives, have responsibility for the long-term future of their organizations. They are at the heart of the entity's leadership, and so, they truly have to have a frame of reference measured in years, if not decades. If the board of directors and the hired executives don't take a long-term view, who else in the organization will?

Program managers are too busy with the financial implications of things that have to be done now, tomorrow, and next week to worry about what will occur in the long run. Managers' focus (remember, for these purposes we're excluding executives from the management ranks) is properly on short-term execution. They constantly have to find the best balance between anticipating financial events and reacting to them because if they spend too much time chin stroking about what might happen, events will pass them by.

And if they spend all their time reacting to things that have already occurred they won't have time or energy for anticipating the future. All of this explains why boards meet a few times each year, while managers meet frequently.

CONCEPTS VS. DETAILS

Another element of the difference between board and management is that boards need to operate in the conceptual sphere while managers live in a world of details. This is consistent with the assets/activities differentiation, and it suggests what should be different about their approaches. Boards need to make their financial decisions based on concepts and strategy, while managers must make theirs based on a multiplicity of often conflicting details.

Dealing with assets is different from carrying out activities. The board typically safeguards the organization's assets and, hopefully, grows them. This is why boards of directors must make decisions about the purchase and upkeep of large assets such as buildings and major pieces of equipment (should we invest in an MRI or CT scanner?). It is why the board should be charged with decisions about how to invest excess funds, and whether and how much of the resulting interest income should be used for managers' activities.

On the other hand, managers have to produce revenues in the short term (think fundraising, grant proposals, and fees for service), and they have to control the expenditures associated with them.

BOARDS INVEST, MANAGERS SPEND

Here is one delineation in financial duties that flows naturally from the assets/activities differentiation. Boards invest assets entrusted to them, while managers spend funds allocated to them. These are fundamentally different actions that have consequences for how each group sees the organization.

Boards	Managers
Assets	Activities
Long term	Short term
Concepts	Details
Safeguard and grow	Produce and control

Boards need to be primarily concerned with things of inherent value, and when one is given responsibility for things of inherent value, there is a natural tendency toward being conservative with them.

At their best, boards make investment decisions with the very long-term view in mind. One university board, for example, used a sliver of its institutional endowment to buy an operating railway yard. Why? They knew that the tangled complex of railroad lines and spurs that existed a few hundred yards from their main campus was not feasible in that location in the long run. They knew that current economic forces were driving railway commerce from their neighborhood to the outlying suburbs, and that some day in the foreseeable future when the rail yard inevitably relocates, that presently ugly patch of land would become a beautiful new campus annex.

Managers, on the other hand, are primarily occupied with costs. Unencumbered by items on the balance sheet, they see mostly things like needs and crises and opportunities to improve, all of which cost money. Both are legitimate perspectives, but the board's view is likely to triumph over time.

IF IT HAS TO BE DECIDED TODAY, IT'S THE WRONG QUESTION

A corollary to the invest/spend differentiation is that if a board ever encounters a major financial question that must be answered right now, it's either the wrong kind of question to come before a board, or it's the right kind of question that was raised too late.

Big decisions of the kind boards must make have their own life cycles. Acquiring a building, trying to collect on a large outstanding pledge by an easy-to-anger donor, or changing investment policies are not 10 minute board discussions in most mission-based organizations. Nor are they usually discussions that have a narrow time frame for execution.

These are important enough matters that they must be granted the proper time and background for due consideration. Making them into governance fire drills means treating them like short-term management matters.

BOARDS 'OWN' THE CONTROLS, MANAGERS IMPLEMENT THEM

One of the changes demanded by the Sarbanes Oxley law in publicly-held companies that has begun creeping into the mission-based sector is that the responsibility for internal controls should be lodged firmly with the board of directors. The thinking is classic assets/activities differentiation -- those at the highest levels of the organization must see to it that their assets are protected, while those at the activity level must develop and run the systems that accomplish this objective.

Arguably, this moves boards closer to the activities level since it's hard to be accountable for something without knowing about it in some depth. In a broad sense that was likely intentional, although in practice boards would have little incentive to get deeply involved in the mechanics of the control systems.

Audited financial statements can be confusing documents. But even for those comfortable with them, there is a temptation to regard them as little more than two dimensional representations of an entity's financial health. But boards and managers can each use their part of the financial statements to guide their work, with executives playing a dual role in both areas. Assets are for boards. Activities are for managers. *NPT*

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