

Why Aren't Ministry Finances Just Like Business Finances?

By John Zietlow

BOARD MEMBERS AND FINANCIAL EXECUTIVES that come to nonprofits from business are often frustrated and even confused by the different environment. At one extreme are nonprofits who gain all or most of their revenue from product or service sales. These "commercial" nonprofits look much like business. But most nonprofits find themselves at, or very near, the opposite pole, with the bulk of their revenues coming from grants and gifts. These "donative" organizations provide "public goods" free of charge to their clients.

How can you equip your board, executive director, or recently hired financial manager to be alert to ministry distinctives? The obvious starting point is to clarify that the "bottom line" is ministry achievement. The ministry exists to serve people by meeting their physical, social, emotional, or spiritual needs, and by so doing to serve God.

But how does financial management differ? Let's consider four key differences.

First businesses have a specific, numerical objective: to maximize the stock price. Their intermediate targets include increasing market share, increasing short-run revenues and/or reducing short-run costs. Commercial nonprofits may adopt many of these same targets.

Ministries, however, generally do not see their revenues automatically increase when they provide more services. Instead, the organization is forced to do additional fundraising just to cover the added costs of providing more of the same or new services. If your ministry doesn't understand this connection it will find itself in an ever worsening financial shortfall.

Second, businesses can price their services, and use revenues to gauge their marketing success. For ministries, however, revenues do not clearly reflect the quality and quantity of service provided because donors do not "buy" services, nor do they typically observe service delivery, except in church settings. Even then, donations are linked more to donor income than the amount or quality of services provided. The key is to develop nonfinancial service accomplishment indicators.

Third, businesses typically know who their customers and owners are. This is more difficult for ministries. Are the donors customers, owners, both, or neither? Or is the organization tied permanently to the activities specified in the charter and/or articles of incorporation, and in a sense, owned by society?

Be sure to clarify the role of donors in your organization's decision-making. This is important because to correctly assess tradeoffs when making major programmatic decisions, especially when finances are tight, managers must make those assessments on the proper bases. Some organizations have gone overboard, curtailing key programs due to declining financial support, even though those programs were essential to their mission.

Fourth, the typical pattern of cash flows often differs from business cash flow patterns. For donative organizations, the fiscal year often begins with a stockpile of financial resources including cash-on-hand, short-term securities, bank loans, pledge receivables, or salable merchandise. The service effort is typically constant, or almost so, during the year, and payroll and supply expenditures continue on a fairly steady basis. To a large degree, the organization lives off its stockpile until the heavy inflows materialize around Thanksgiving and Christmas, at which time it replenishes its stockpile.

When wills and bequests are sought, the organization may use an income stream generated by endowments to partly offset dry periods. However, the restricted nature of many of these sources may prevent interest or principal from going toward operational needs. Consequently, many nonprofits may experience a short-term need for funds. This may result from a downward trend in donations, a predictable seasonality in the receipt and disbursement of cash, or from unexpected costs. The ministry manager must carefully analyze the ministry's cash requirements.

Your board and officers are facing a difficult management task. Bringing in business expertise via new board members or managers is helpful, but individuals with business experience will be challenged by their new environment. Informing them of these four key differences will help them bridge the business-to-ministry transition in their thinking.

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