Have you ever tried to implement benchmarking or performance measurements at your organization, only to ask the question "Where do I start?" While for-profit organizations have tangible, easily-measured "products" and "profits," nonprofits have intangible "donor relationships" and "services." Deepening the problem is a lack of standards: there exists no formal, industry-wide measuring stick by which all nonprofits are held accountable. In this issue of Nonprofit Fiscal Fitness, we'll discuss what you could — and should — be measuring. Want to know what a "performance margin" is? Read on to find out. And don't forget to email us with your thoughts!

You have received this email because you are subscribed to Nonprofit Fiscal Fitness, a monthly newsletter about issues in the nonprofit business world. Subscription information is located at the bottom of this newsletter.

This month's survey:
Nonprofits are expected to be held accountable in many ways, but especially to their donors. Tell us a little more about the demands you've seen from your donors. We'll report the results in the next issue of Fiscal Fitness.
Take the two-question survey now

Managerial Accounting for Nonprofit Organizations —
Understanding the Need to Measure When Profit is Not the Goal

Managerial accounting is regularly used by for-profit corporations to improve overall efficiency and profitability. Nonprofit organizations, on the other hand, have not traditionally been accustomed to evaluating operations using managerial accounting principles. But the adoption of managerial accounting techniques could be as beneficial to ensuring the longevity of nonprofit organizations as it is to for-profits, provided that nonprofit managers can select appropriate measurements, or benchmarks, that provide practical information for planning, control, and decision-making.

Both for-profit and nonprofit organizations rely upon planning to forecast the resources needed to
achieve goals. The former plans budgets enabling the optimum use of resources for profitability. The latter sets fundraising campaign goals to bring in enough revenue to support the maximum number of programs and services possible. Once planning is completed, however, for-profits continue to apply managerial accounting principles, while most nonprofits do not, despite the fact that control and decision-making could make a profoundly positive impact on their operations.

Managers of nonprofit organizations, including the director of development and director of major giving, are often compensated based on their performance in areas such as dollars raised, visits to donors made, and overall team success in meeting fundraising goals. But it is more difficult for executives to evaluate nonprofit operations for the purpose of changing or discontinuing them, largely because of the difficulty in understanding what to measure. Where a for-profit organization can usually tell whether a product costs more to produce than it returns in profit, nonprofit “products,” such as donor relationships, are less tangible.

As stated in a recent brief published by the Center on Philanthropy at Indiana University, commonly-tracked costs, such as the costs associated with cultivating donors, are sunk costs, and, therefore, inaccurate measures of a fundraising program’s efficiency. A central principle used in evaluating performance in order to control operations is management by exception. For-profit managers are charged to investigate any exceptional departures from the plan. But nonprofits have a hard time determining exceptional levels of departure. Because so few agree upon performance measures, there are no industry benchmarks to evaluate against. This is why benchmarks are needed to help nonprofits manage by exception, and, in turn, better control operations.

But nonprofit managers must figure out how to measure their operations if they hope to keep them afloat, because competition is as real among nonprofits as for-profits. More than 50,000 organizations receive nonprofit status each year, and, due to duplication of efforts (according to IRS statistics), a full 60% of today’s organizations will be out of business within 10 years. Despite their enormous numbers, no one has been able to come up with a reliable set of metrics or standards to judge nonprofits because, as some believe, the types of services nonprofits provide — tangible or intangible — are impossible to accurately measure — no matter what type of tool or system you use to measure them.

Until an industry standard of measurement can be established, nonprofit managers must rely on the less formal principles of managerial accounting to help their organizations thrive. Some form of measurement that is useful to the manager must be implemented. This is where benchmarking can play a critical role.

Nonprofit managers may believe that benchmarking is not useful when profitability is not an issue. But, taking a cue from for profit companies’ profit-margins, nonprofits should measure their performance-margin — measuring their success by the “difference” they make. This “difference” could be determined by how many lives are saved, how many people are taken off the streets, etc. Once this difference can be measured, it can then be benchmarked and improved upon.

Just as with for-profit organizations, nonprofits will get what they measure. Once focus is placed on managerial accounting principles, organization-wide awareness will be raised and improvements will occur naturally. Nonprofit organizations will begin to reap the benefits of healthier operations, less turnover, and even greater donations, because the key to survival for the nonprofit in today’s economy depends not just on the ability to raise money, but on the ability to demonstrate effectiveness, and improve it. By applying incremental analysis and adopting benchmarks that allow for management by exception, nonprofit managers can improve the operations, and, therefore, the long-term viability of their organizations.

**Four Tips for Implementing Managerial Accounting**

- Fiscal Fitness - A newsletter about issues in the nonprofit business world  
  03/23/2005
Principles at Your Nonprofit

1. For-profits measure costs of direct labor, direct materials, and overhead to determine operational health. Your nonprofit should measure the cost of staff, programs, and overhead to determine if your organization is fulfilling its mission efficiently.

2. Keep in mind the principles of managerial accounting in order to assess whether the activities your organization engages in effectively contribute to your organization’s “performance-margin.” Remember to look at costs as well as deliverables. Ask yourself, “If it costs $900,000 to raise $1,000,000, is it worth it?”

3. Use incremental analysis to understand what constitutes exceptions in the success of operations and programs. Benchmarks can help in this area. For example, if the industry’s response to direct mail is 4%, and one nonprofit only achieves 2%, it is possible that direct mail is not “profitable” for that organization.

4. Use data and benchmarks to make decisions that affect the financial health of your organizations. Seek information that can help you decide on the overall direction of your organization to help survive competition while making the maximum impact.

Latest and Greatest

Upcoming Events

Save the date! Mark your calendars now for Blackbaud’s 2005 conferences:

- **Blackbaud’s Canadian Conference on Philanthropy**
  Toronto, Ontario
  13-14 June, 2005
  Registration is now open! [Register online here >]

- **Blackbaud’s Conference on Philanthropy**
  Charleston, South Carolina
  October 23-26, 2005

Upcoming Web Seminars

- **Integrated Endowment Management for Colleges and Universities** Join us for a FREE online seminar to learn how colleges and universities can better manage endowments by implementing an integrated system. Topics discussed include internal controls, endowment tracking, real-time endowment balance reporting, and spending policies.

  - 4/28/2005 3:00 p.m. EDT [Register Now!]
  - 5/18/2005 3:00 p.m. EDT [Register Now!]

- **Complete the big picture with The Financial Edge™ (For The Raiser’s Edge® clients)** Join us to discover the benefits of adding The Financial Edge to your award winning fundraising solution, The Raiser’s Edge. You’ll see how the integration enhances efficiency and accountability as well as improving internal communication. Get a complete, more accurate view of your organization’s operational, fundraising and financial success AND make your work life a lot easier with The Financial Edge!

  - 4/12/2005 1:00 p.m. EST [Register Now!]
Streamline your Grantmaking Activities Join us to learn how to transform the way you work, strengthening the programs and support delivered to your constituents, weaving together all of your major systems — financial management, relationship management, and grantmaking — to leverage the precious resources foundations like yours have, helping you more fully accomplish your mission without having to think about the technology behind your success.

- 4/21/2005 3:00 p.m. EDT Register Now!
- 5/10/2005 3:00 p.m. EDT Register Now!

The Financial Edge (for non-Blackbaud clients) Looking for new nonprofit accounting software? Join us to discover how The Financial Edge can transform your traditional accounting data into decision-making power through advanced reporting and budgeting and much, much more!

- 4/18/2005 1:00 p.m. EST Register Now!

The Financial Edge (for AFN clients) See a preview of exciting new features exclusive to The Financial Edge! This demonstration is designed for current users of Blackbaud's accounting software, and it will highlight the benefits of converting from Accounting for Nonprofits.

- 4/19/2005 3:00 p.m. EDT Register Now!
- 4/5/2005 1:00 p.m. EDT Register Now!

Results from Last Month's Survey

Last month's Fiscal Fitness survey focused on President Bush’s proposed budget and its broad impact on nonprofits. Of those surveyed that receive government funding, over 80% anticipate that they will be negatively affected and plan to compensate by increasing their focus on fundraising and grants. Download the printer-friendly results here. And if you haven't already, make sure to take this month's survey.

Subscriptions

You received this email because you are subscribed to Fundraising Well. If you would like to unsubscribe, please visit subscribe.blackbaud.com to manage your subscriptions.

If this email was forwarded to you, and you would like to receive a free subscription, please visit http://www.blackbaud.com/resources/subscribe.aspx. There, you'll be asked to create a Blackbaud account and choose which subscriptions you'd like to receive.

The information contained herein should not be construed as legal or professional advice. If you have questions about how this newsletter’s content applies to your organization, you should seek advice from appropriate professional counsel.