# Is Your Association's Finance Function Ready for this Century?

I suspect many associations neglect to develop strong financial management competencies and don't understand the changing finance function. I'm not suggesting that associations are failing to provide financial accountability or that they make poor business decisions. What I am suggesting, however, is that the bare minimum is being done. This is likely because the finance function has been neglected for a long time and that awareness of changes in the finance function is limited. Associations, by not keeping pace with change in the finance function, may not be making the best decisions.

Are you using, as an example, Activity Based Costing (ABC) or financial modeling for new program, service development, pricing or abandonment decisions?

There are two key tracks in the accounting road. The tracks are financial and management accounting. The difference must be understood.

## Financial Accounting

Financial accounting is the formal process of recording and reporting what has happened in an organization in financial terms. Financial accounting information is governed by principles and rules that are subject to external audit. Financial accounting systems are put into place to support financial accountability, disclose financial position through statements, and provide information to support decision-making and budgetary control.

## Management Accounting

Management accounting is concerned with the information needs of individuals or teams within an organization and develops information to support and improve future decisions about strategy. Management accounting focuses on the way financial information is analyzed and presented. For example, it uses plans, budgets, performance targets and measurement, reporting and evaluation as control processes.

Management accounting can involve the use of Activity Based Costing (ABC), whereby an item's cost is compared to its price, ensuring a reasonable level of cost-effectiveness. It can involve the use of financial modelling whereby an association can "look into the future" to see the effect, in financial terms, of pending decisions through scenario-building.

In the profit sector, strong management accounting activity is essential to success. This trend has not reached a large number of associations. Why not? Many respond with, "We don't have the time, knowledge or the technology." In fact, a profit organization that does not produce management accounting reports is in jeopardy. The same could apply to associations. The finance function in organizations is changing, with most of these changes occurring in the management accounting area. Association managers are familiar with financial accounting – they need to learn more about management accounting.

Management accounting differs from financial accounting. The latter is concerned with accurately reporting valid historical financial information and, the former is concerned with the development and interpretation of information to improve an association's future strategic position.

Students in CSAE's Association Management Education Program (AME 300) discuss the association managers' responsibilities with respect to financial and management accounting. A common message coming from students is that today's association manager needs more timely, accurate and meaningful financial and other information to assess today's results and to plan for the future. This need is resulting in changes to the finance function.

## The Changing Finance Function

Although it is commonplace for associations to hire or contract financial managers, an association's chief staff officer (CSO) is ultimately responsible for the association's financial health and management. Therefore, it is the CSO's responsibility to understand what finance managers do and why, and keep the association up-to-date with changing requirements in the finance function.

A major change occurring in the finance function is a shift from transaction processing based activity (i.e., traditional accounting functions), and control and risk management (i.e., financial management activities) to a decision support function (i.e., strategic planning support, cost analysis, performance analysis).

This shift means an association will need to understand the changing role and acquire the knowledge, skills and capabilities of the new finance function. The financial manager must:

- understand the association and its financial management matters;
- serve as an advisor and be part of the senior decision-making team;
- assist with developing strategy and delivering business plans and accountability;
- engage in analytical, strategic, and value-added oriented activity; and
- focus on performance enhancement.

Examples of the new responsibilities for finance managers should include:

- Identifying areas to improve performance such as removing non-value-added work;
- Identifying the costs and benefits of current processes and alternative processes to reduce the cost of transaction processing and eliminating costly rework;
- Conducting benchmarking studies to identify best practices;

- Working towards the development of integrated information systems and using technology to reduce time, effort cost and complexity;
- Creating an analytical, measurement and reporting system to forecast, monitor process productivity, costs and trends and providing financial advice to support strategic decision-making.

These new responsibilities focus more on results, avoid waste, strengthen information support and access, replace inefficient processes, improve the quality of work, and use controls and measurement of activities in formats similar to the balanced scorecard approach.

Engaging in learning activities in the areas of management accounting and information technology is paramount for finance managers as opportunities to convert information to knowledge that will support decision-making are moving at an unprecedented pace. Realistically, this may require an investment on the association's part to acquire part-time support for basic transaction processing to provide time for the finance manager to develop and participate in new responsibilities.

Given the shift to the decision support function, the finance manager should be working with the rest of the management team to shape direction and ensure that resources are efficiently and effectively acquired, maintained, and deployed in the best interest of the association.

Remember, there is a difference between financial and management accounting reports. As we move into this century, it is critical for associations to keep pace with new practices and the changing finance function. If you would like to learn more, an Internet search will provide current information on the changing finance function and on financial and management accounting.

*This column features innovation and practical solutions applied to challenges, trends, issue and opportunities for the association community. Column editor Jim Pealow, MBA, CMA, CAE is a consultant and the Association Management Education Program Lead Instructor/Coach for CSAE. He can be reached at jim@amces.com.*