

FINANCIAL MANAGEMENT - INPUT

INTRODUCTION

As a leader or a manager you may not be the person in charge of keeping the accounts of your unit/organisation in order but you certainly will have responsibility over them. Taking financial matters seriously will allow you to perform your other duties more efficiently. Just like in strategic planning, you will need to *plan*, *organise*, and *monitor* dutifully the financial aspects of your organisation even if at first the task seems tedious.

MAIN IDEAS

A plan to the service of a higher plan

Financial management and planning requires that you first have a global plan for your organisation. Henceforth, it is essential that you develop first a long-term strategic plan with a short-term action plan. This will simplify greatly the task of financial planning since having clear goals will clarify your financial needs for the short and long term.

Guiding Principles

KnowHow NonProfit put together a list of guiding principles we can subscribe to when dealing with financial matters. These are:

- **Consistency:** your financial policies and systems must remain consistent over time.
- **Accountability:** you must be able to explain and demonstrate to all stakeholders how you have used your resources and what you have achieved.
- **Transparency:** your organisation must be open about its work and its finances, making information available to all stakeholders.
- **Integrity:** individuals in your organisation must operate with honesty and propriety.
- **Financial stewardship:** your organisation must take good care of the financial resources it has been given and ensure that they are used for the purpose intended.
- **Accounting standards:** your organisation's system for keeping financial records and documentation must observe accepted external accounting standards.

Financial Statements

A financial statement tells you where the institutions money came from, where it went and where it is now.¹ There are three important documents that you need to know about:

- **Balance Sheet:** this document is an snapshot of your financial situation on a given moment in time. It shows what you own and what you owe. There are three main components of any balance sheet:
 - a. Assets (what the institution owns)
 - b. Liabilities (the obligations the institution has)
 - c. Shareholders equity / net assets (money attributable to business owners)

Each component is divided into different categories. What you need to know is that **Assets = Liabilities + Shareholders Equity**

Profit and Loss Statement (or income statement): this document allows you to see the revenues and expenses over a certain period of time (not a certain moment of time like the balance sheet). It also tells you if the institution lost or earned money during a concrete period. Note: Institutions that do not generate revenues (non-profits generally) sometimes use the **statement of activities** to explain the income and expenses of the period.

Cash Flow Statement: Is a financial statement that summarizes the amount of cash and cash equivalents entering and leaving a company. It measures how well a company manages its cash position, meaning how well the company generates cash to pay its debt obligations and fund its operating expenses.¹

If this was not clear for you, follow this [link](#) where you will find a visual guide with more detail on each concept. Furthermore, there are many free online templates you can use to develop your financial statements. Here are some examples from the website Vertex42: [balance sheet](#), [income statement](#), [cash flow statement](#)

Note: Take into account that each country has different accounting regulations. The most used regulations nowadays are the International Financial Accounting Standards (**IFRS**) although some countries continue using their own system, e.g. the United States uses the US GAAP.

The three financial statements aforementioned are the basics of accounting and can get you a long way. However, there are many more concepts you should get yourself acquainted with or at least know of their existence. Some concepts you might want to review include: debt ratios, direct costs and contribution margins, break even point, financial ratios, bookkeeping, debits and credits, etc.

Finally, a small note on three relevant topics:

- **Budgeting:** Preparing budgets to foresee what future incomes and expenses you might incur on is an important exercise and the first step to avoid spending more than you earn. Since budgeting is not a legal requirement (unlike the previous documents) many institutions fail to do it. This is a big mistake since budgeting can bring many benefits to any institution and it requires little time and resources.
- **Risk Management:** Just like any individual, your institution is vulnerable to internal and external events that can dwindle your financial efforts. Analysing the risks that affect your institution is typically reduced to investment related activities, but it actually has many implications at all levels of your financial undertakings. A good exercise is to follow the risk management process: 1) Identify the risk 2) Analyse the risk 3) Control the risk 4) Monitor the risk and review the process
- **Fundraising:** Most of those who are reading this document will probably be in charge of managing an institution or unit that does not generate revenues by selling products or providing services. In most cases you will rather need to raise funds from third parties to support your activity (even in the case that you are a for-profit organisation). If this is the case, you should be interested in the area of fundraising. This is vast world by itself in the upcoming future there will be a section with some insights into this fascinating topic.

IGNATIAN NOTE

There are two interesting points to make about financial management in the Society of Jesus (SJ). One of them is that the SJ has a manual called the **Instructions for the Administration of Goods (IAG)**. This manual explains procedures and policies for the correct management of financial resources. It puts a lot of emphasis on the responsibility of any individual managing these resources in an ethical way and should be read and understood by those people who are engaged in this ministry.

The second point has to do with one of the vows members of the Society of Jesus have to make when they join the order: the **vow of poverty**. The understanding of poverty has changed over the course of history and has different conceptions all around the world, however, we (Jesuits and collaborators alike) can still find in Ignatius' idea of poverty good insights for our work. Ignatius understood that human fear of poverty and powerlessness is among the most binding of fears. He helped the First Companions overcome that fear to find "beggary astonishingly fruitful"². But what is truly useful for us in the teachings of master Ignatius are the ideas of **indifference** towards money in order to get rid of the attachment that we might have and **facing avarice** which he saw as a social disease enervating the Church leadership and which he understood as the root of all evil.

FINAL THOUGHT

To speak of my own experience, there were three periods in my life when the Lord gave me the experience of actual poverty. The first was in Marneffe, Belgium, during the weeks that followed our expulsion from Spain; the second, when I was detained, under military arrest, in a Yamaguchi jail; and the third in Hiroshima after the explosion of the atom bomb. What joy and union of hearts there was in those communities of Marneffe and Hiroshima! **I have never seen more union and happiness in any other community or experienced a deeper liberty of spirit and joy.** In these three periods of my life I learnt for myself how little a man needs to lead a joyful life! I often wonder if we wouldn't have more union and joy in our communities today if we were less affluent and practiced poverty better.

Pedro Arrupe - On the Practice of Poverty (1973)

EXPECTED LEARNINGS AND OUTCOMES

1. Understanding the Principles that should guide our management of financial resources
2. Learning about the main financial statements in any institution
3. Connecting with the Ignatian tradition in the Administration of Goods and on the practice of poverty

"No one can serve two masters. Either you will hate the one and love the other, or you will be devoted to the one and despise the other. You cannot serve both God and money."

Matthew 6:24

1. U.S. Securities and Exchange Commission. Beginners Guide to Financial Statement
2. Investopedia
3. Joseph A. Tetlow (1986) - The Transformation of Jesuit Poverty