APPROACHING FINANCIAL MANAGEMENT

This chapter provides ideas, tools and techniques to support your analysis and decision-making as you develop plans, refine them with board and colleagues, and adapt them to meet the circumstances you encounter during the year.

Throughout the financial planning cycle, you will apply these techniques to

- draft the year's budget;
- present the draft to the board to secure their approval;
- revise the budget for major inputs, such as funding results;
- present the revised budget for board approval;
- review financial results and update your plans as the year proceeds;
- prepare **projected actuals** to year-end; and
- evaluate the final outcome of the year.

The concepts presented in this chapter will help you evaluate your company's financial reports at an overview level as well as in line-by-line detail. You will learn how to recognize and apply points of comparison to help you identify financial strengths, weaknesses, opportunities and threats; how to assess interconnected items; and how to categorize items not just by function (e.g., artistic versus administrative), but also by relative impact on the company's **finances**.

There are no hard-and-fast rules for applying these ideas; the goal is to give you useful vocabulary and techniques for measuring success, assessing problems and developing solutions.

Budget preparation takes centre stage for a portion of the year. Drafting, refining and approving a financial plan requires considerable skill and energy from staff and the board. However, financial mettle isn't really put to the test until the company begins to execute the budget. You see, anyone can draft a budget, just like anyone can memorize Hamlet's soliloquy. The trick — as in acting — is in "lifting it off the page" and making it a living document. This is where technical skills in finance and **accounting** integrate with softer skills, such as leadership, communication, critical thinking, time management and more.

> "My whole life has been one big improvisation."
>
> —Clint Eastwood, actor

To get the ball rolling, we will look at concepts and expectations that shape the demands on financial managers.

In my undergraduate years as a student of English and French literature, I wrote many essays. More often than not, assignments began with the words, "compare and contrast." These instructions invite you to consider the characteristics of the works in question and to investigate their similarities and differences, usually as a springboard to a deeper analysis or appreciation of what is significant, interesting, informative or relevant.

Chops: a musician's technical skill

Riff: a type of improvised melody

Standards: widely known compositions

—Jazz slang

Financial analysis often follows the same path. We select two or more items for comparison and make quantitative observations of their similarities and differences as the basis for evaluating whether things are on track and how we should proceed. A skilled finance manager selects relevant data sets to compare and analyses them in light of the questions he or she is trying to resolve. Luckily, when it comes to processes and techniques, there are some "standards," as they say in the jazz world, and the trick is to learn how to "riff" off them within your organization. In a few pages you will be reading about the specifics of variance analysis and trend analysis, but first we'll gain an overview.

The notion of riffing — or improvising — deserves a moment. Just like Clint Eastwood, we all improvise our way through every day. A huge element of management skill — perhaps the most significant — lies in being able to adapt to changing circumstances , in that moment. It's important to reconcile this notion of a flexible and responsive manager with the notion of the budget as a researched, negotiated and formally approved **policy** document.

Organizations must decide how best to accommodate changing circumstances within their planning process. At one extreme, any deviation from the budget might be viewed as a failure. At the other, a laissez-faire attitude might result in the budget being more or less ignored while the organization rolls along in response mode. The optimal position for your organization probably lies somewhere in between.

The ability to stick to a budget is held as an important **benchmark**: it's senseless to invest a lot of time and energy into a plan that's going to be discarded the moment things change. However, rigid management stifles creativity, and extreme meticulousness can produce needless bureaucracy. The degree of rigour beneficial to a given company depends on factors such as its size and complexity, the risk inherent in its programming (e.g., a choreographic workshop or artist-run centre may need more flexibility than a classical ballet company or major art museum), the skill level of decision-makers, and the attitudes and preferences of the leadership.

Managers are expected to know how to implement a budget (that is, to follow the script, as it were, by setting activities in motion, making the planned purchases and generating the targeted revenues). A complementary expectation is that managers will have the "chops" to manage change while maintaining stability. No year goes fully according to plan — not ever! When confronted by the unexpected, leaders are expected to step up and decide what

Monthly reporting routine:

- Complete the bookkeeping
- Reconcile bank
- Review for error
- Analyse, interpret
- Report to board
- Make decisions as needed
- Transmit to staff for action

to do next. These expectations, by the way, come from all directions. Volunteer board **members** look to paid managers for expertise. Senior staff look to the **director** for coordination, and more junior staff to managers for specific instruction on what to do.

The best finance manager can be thwarted if the company lacks effective structures supporting collaboration between staff and board.

When you take on a financial management role, you agree not only to balance the demands of a script (your budget) against the exigencies of daily life (the improv element), but also to do so while responding to the expectations of colleagues, your **employer** (the board) and perhaps other **stakeholders**. With so many factors at play, it is clear that to thrive, an organization needs more than a skilled manager, it needs recognized and shared processes that provide a framework for adapting to circumstances. In the absence of functional collaboration amongst staff members and between the board and staff, the best financial manager can be thwarted. A productive combination of smarts and structure equips the organization to move forward. An outcome may differ from expectations, but if there's general agreement that contingencies were handled as well as possible, then the result may be considered a success.

KNOWLEDGE CHECK

True story: Conflict develops between the artistic director and general manager of a small and relatively young opera company when the gala falls flat, alternative revenue sources don't materialize and the year's programming is threatened. The GM's focus becomes risk management; the organization has already racked up an **accumulated deficit**, and she wants to pull back on the **current** year's **vision** to protect the bottom line and, ultimately, **net assets**. The AD's focus becomes preserving the integrity of the current year's plan and, ultimately, the company's artistic reputation. The board lacks experience and is largely disengaged. When the GM refuses to agree to the AD's spending plans, he goes ahead and commits the company behind her back. She resigns abruptly. How does this illustrate the concepts you have just been absorbing?

This is a textbook example (literally!) of an organization that lacks management skill in adapting to adverse circumstances. The GM and AD both act to defend the company in a period of crisis — each from their own perspective and sphere of responsibility. Was the GM demonstrating sound leadership and good financial skill? Tricky to evaluate, because under stress, functional collaboration crumbles. The AD, who feels that it is "his" company, proceeds independently, allowing the GM to be blindsided by the actions he takes. The GM is stunned when she learns that her financial efforts have been undermined. The conflict at this point is personal; the board is not consulted, so it learns the specifics only as the story of the GM's resignation. The unintended outcome is years of instability for the organization. The financial problems become entrenched as successive GMs fail to find a resolution satisfactory to the AD.

CULTIVATING GOOD ROUTINES

It is important to have a reporting and supervisory structure where direction feeds down from management to front-line staff and reports feed back on work accomplished, successes and areas for concern.

Accounting information is integral to this cycle. The key is to create a routine that helps ensure that reports are accurate; progress to date is fairly evaluated; and emerging situations are spotted so opportunities may be seized and problems nipped in the bud.

Each month's **bookkeeping** may need a week or more into the new month because it can take that long to receive and post inputs that arrive after month-end. The bookkeeper **reconciles** the bank as promptly as possible and reviews the statements for errors.

Accounting reports should then be reviewed by management. The general manager may undertake this, or delegate to senior staff, who check their department's reports, with the GM "signing off" at the end of the process. Ideally, this process will be complete by mid-month.

KNOWLEDGE CHECK

What's the value to the company in a two-step review process, bookkeeper followed by staff? After all, shouldn't the bookkeeper be responsible for producing accurate reports, without piling finance duties onto already-busy colleagues?

Double-entry bookkeeping includes two standard verification steps: **bank reconciliation** and the **trial balance**. These steps flag technical flaws but not necessarily allocation errors. An expense can be posted to the wrong **account**, and the bank rec will still work and the books will still **balance**. Hands-on staff are likeliest to spot such inaccuracies. A part-time bookkeeper may legitimately misunderstand or overlook issues that should leap out at full-time staff. Staff who review "their" numbers regularly are equipped to contribute to the accounting process and — beyond that — to feed into the management process of evaluating status and adapting plans to fit circumstances.

While staff are checking the accuracy of accounting reports, they should also be reviewing the results of their work and ensuring that revenues and expenses are on track according to the budget. Making this a routine task promotes good budget control. Staff need to be working with detail reports for a complete understanding of the status of their work.

The **board of directors**, in fulfillment of its **governance** role, needs to review financial reports on a regular basis. In fact, the board meeting schedule may be the key driver of financial reporting throughout the year. Boards usually prefer to work with summary reports. Additional detail can be provided as needed; in principle, they should be looking at the big picture and leaving the intricacies to staff.

Many (though not all) boards consider reviewing the numbers to be an essential item on every agenda. Monitoring the financial situation is a critical component of risk management. Organizations that fail to put the appropriate emphasis on financial reporting risk being blindsided by problems. The