

# Financial Management in Non-Profit Organisation

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## ABSTRACT

The importance of NPO's in economic and social development is very evident these days. The NPO'S role has increased tremendously in the development of the nation. It also helps the country face grass root level issues very efficiently. They rely majorly on external funding and very few NOP's get funding from government. The country is facing financial crisis which is leading to the decline in the donations being made to the Non Profit Organisations. This causes severe financial difficulty in these organisations as they rely mostly on the funding received by the people, they are now facing a lot of issues. This paper will try to examine the ways which NPO'S should adopt in order to have god financial management. Financial strategy deals with the financial aspects of a business and ascertains its possible course of action for any organisation irrespective of the fact whether it works for the profit motive or service motive. Here we will consider just the non-profit organisations and for them service to the community is the ultimate goal. But still NPO's need to maintain its finances as for all the service they provide to the society funds are required and these funds should be utilised and procured properly. Just like profit making organisations, the NPO's must be financially secured and stable for meeting its goals and objectives. They don't have any goal to earn maximum profits but they have to be financially stable for providing service and community based goals. They also seek donations and for that they have to perform well in community services and be transparent about it so that they get maximum donations. Financial strategy maximises an organisation's market value and due to which long term and short term goals of an organisation gets fulfilled. It also ensures proper guidance in respect of financial decisions, investment decisions and overcoming all the hurdles.

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## INTRODUCTION

A non-profit organisation is the one which is driven by a social cause and not driven by profit. Because of this they receive tax benefit from the government. To qualify for an NPO status an organisation:

- Needs to be created for Religious, charitable, literary, scientific or educational purpose.
- Must have a governing body that is elected democratically.
- Must have its by-laws placed that states its purpose and how it will be run.
- Cannot be created for the benefit of any individual or private interests.

NPO'S play an important role in the society as they work to improve the lives of the people and do well to public at large. They are the ones who are at forefront in bringing the social change and providing the services to those who are not able to manage it by themselves. They also motivate the employees for achieving good for others and not just profit motive.

But to achieve all this NPO's should have adequate finances with them. In these times when everyone is facing crisis to maintain their personal needs, NPO's find it difficult to collect finances thereby increasing the need of the organisations to manage their funds well and in the most efficient direction to ensure that the goal they have adopted is achieved well. This will help them to know how well the funds are utilised and what efforts can be made to spend the funds in the right way. Also there is a need to be transparent in terms of financial disclosures so that people feel like donating for a good cause. The NPO's should have proper financial strategies to move in this direction.

Financial strategy maximises an organisation's market value and due to which the long term and short term goals of an organisation get accomplished. So this must be considered in advance before allocating and procuring funds.

In the profit making organisations, the ultimate goal is maximising shareholder's wealth which is done by maximising the price of the shares of the company in stock market. In the context of NPO's this doesn't work thereby making the financial management model not appropriate. Thus the goal of the financial management in NPO's is maintaining the revenues while fulfilling its required goals. The donation provided by the donors should be utilised in the most efficient manner possible. This can be done by minimising the deficits rather than maximising the revenues.

Financial strategies begin with the procurement of funds and ends with the proper utilisation of them. The main aim is to ensure that there is regular flow of funds which is adequate to meet the goals of the organisation and to accomplish their present and future needs. It majorly focuses on the proper alignment of financial management and the objectives if the organisation for their strategic advantage and its growth in the long run.

As per the theory of Thomas Wheelen and David Hunger; "Financial strategy deals with the financial aspects of the organization and ascertains its possible course of action. It also provides a competitive advantage at low-cost funds and flexibility to raise capital to support business policies. Thus, the financial strategy focuses on maximizing the financial value of a business of an organization or an enterprise."

The financial management is generally divided into three categories namely Investment decision, capital budgeting decision and working capital decision. Capital structure does not play a much part over here as most of the funds are donated ones for which they don't have to pay interests and dividends. So there is no debt over here.

The first thing that has to be considered is Short term financial management that is linked to current assets and current liabilities. It majorly comprises of cash management, inventory management and receivables management. Inventory and receivables is of not much significance in the case of NPO's but cash flow, management is critical as it involves transparency, regular flow, better utilisation and continuation of cash flows throughout.

Next is Budgeting which is utmost important for an NPO. This is because if the budgeting of the funds is done properly then there are chances that NPO will be economically stable and sustainable. Budgeting is the most common aspect even in household also and here it is very important as there are less funds already and there is a need to plan the uses of these limited funds to achieve the goals effectively and efficiently.

Accountability also can't be ignored here. Specially in the case of NPO's where there is a need to disclose all the expenses which are undertaken by the organisation. These expenditures also help them to get more funds in future. But in this area in which NPO's are particularly weak.

It is rightly said that business growth is very expensive in nature because it consumes capital which should be managed carefully. Thus a business must collect all the relevant information before making any investment. This decision must be taken very carefully. Though there is no profit motive involved here but to be financially stable it has to be considered properly.

To attain success an effective financial strategy must be implemented. This is the basic requirement for attaining financial stability. The few elements of financial strategy for NPO are:

- Setting a proper budget according to previous year data and performance as well as future goals of the organisation. It matters a lot as it provides support for future planning. The budget should be set realistic by considering the previous year data and future goals.
- Overhead expenses form an important part in the working of the NGO's. But they are tends to be ignored which leads to faulty financial strategy being formed and this leads to non-compliance of the plans being made. They need to consider this while managing the funds of the organisation. Overhead expenses are important for the growth of the organisation as they include salaries and office expenditure.
- There should be an organised system for doing the activities of the organisation. If they have an organised data about the finances they secured then it would be easier for them to plan out their usages and execute the plan properly. Thus this data needs to be regularly updated and monitored and to kept safely. There should not be any disruption into this data.
- These organisations should consider the economic conditions of the country into mind and should not think that the financial policies of the nation would not affect them. To avoid this they should seek the help from professional. They will help the organisations make informed decisions.
- There should be a transparency regarding the funds used by the organisation with the donors. The money which they donate is out of their hard work and thus they need to know where that money is used. NPO's should make sure that they inform the donor about how his/her money was used. This will also lead to a better bond and trust between the organisation and donor and they will in future also remain attached with the cause.

- Fundraising is the most important concept for the growth of the organisation. It is the main source for getting the finance and thus needs to be planned carefully. This is very important as if this goes well funds will be given to them. They introduce them in front of the donors to fetch funds for their cause.

For this first they need to know who their donors are and whom they have to target. If they know their donors then they will be able to better prepare the strategy to convince them. Then they need to educate their donors about their cause and organisation and how they will achieve this. This builds trust between them. Next is telling the donors their benefit if they will do charity as everyone wants their benefit. You also need to respect your donors as respect only will build a good relation and by this they can maintain a long term bond with the donors.

### **CONCLUSION**

Financial stability is the most important aspect for the profit as well as non-profit organisations irrespective of the objectives and goals which would be different for a profit making organisation and a non-profit organisation. And here for non-profit organisation's survival the fund raising the usage of the funds has to be maintained properly in order to maintain a growth between growth of the organisation and its contribution towards the welfare program. It is also clear that the main sources of funds of a non-profit organisation are donors and supporters. Thus to maintain transparency an organisation must not hide anything about the financial strategy and its spending and should be honest with them. They should also make them happy by using the funds donated to them in the most appropriate way and by respecting them as it will build the brand image of the organisation.

NPO's play an important role in addressing a variety of social issues and yet very little has been done regarding their financial management and sustainability. If a greater study and understanding of NPO's financial management is done then it will improve their effectiveness. So a complete research and understanding should be developed for their financial management in order to grow them and thus help the nation in addressing grassroot issues.

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