

CFG Adrian Randall Prize 2013

More of the wood, less of the trees:
a trustee-centred approach to Management Accounts

Hilary Seaward

Winner of the inaugural CFG Adrian Randall Prize

INTRODUCTION

About CFG

Our vision is to inspire the development of a financially confident, dynamic and trustworthy charity sector.

Charity Finance Group is the charity that champions best practice in finance management in the charity and voluntary sector. With this aim in sight, CFG delivers services to its charity members and the sector at large which enable those with financial responsibility to develop and adopt best practice. Our training and development programmes enable finance managers to give the essential leadership on finance strategy and management that their charities need.

With more than 2,200 members managing over £19 billion income, we are uniquely placed to challenge regulation which threatens the effective use of charity funds, to drive efficiency and to help charities to make the most out of their money.

About the Adrian Randall Prize

Adrian Randall was the pivotal founding member of the Charity Finance Group, who sadly passed away in 2012. CFG set out to create a lasting legacy that captured his determination and vision to develop charity finance by inspiring future generations of financial leaders to develop an idea that could transform the charity sector.

The Adrian Randall Prize for 'Inspiring Financial Leadership' was launched in late 2012 and applicants were invited to submit creative solutions to tackling problems and issues related to charity finance which have been neglected or are difficult to address, with the potential to win a £5,000 prize to help develop their vision.

The prize winner was short-listed by an expert panel of judges consisting of:

- Caron Bradshaw – CEO of Charity Finance Group
- Andrew Hind – Co-founder of Charity Finance Group and editor of Charity Finance magazine
- Paul Palmer – Professor of Voluntary Sector Management and Associate Dean for Ethics, Sustainability and Engagement at Cass Business School
- Lynne Berry – Deputy Chair for Canal and River Trust
- Dame Clare Tickell – CEO of Action for Children

Hilary Seaward was awarded in the prize in spring 2013 for her project to make management accounts more accessible for trustees with a non-finance background.

This document outlines her reflections one year on from winning the prize and the progress she has made on her initiative.

More of the wood, less of the trees:

a trustee-centred approach to management accounts

Hilary Seaward

*You cannot **bore** people into buying your product; you can only interest them into buying it.* David Ogilvy

SUMMARY

To accountants the management accounts tell an important story, not just about the past but about the future and where we are heading. But all too often they are in an impenetrable language that most, if not all, Trustees can't read and don't understand.

We know the vital importance of good financial management and reporting especially in difficult times. However much we budget and analyse variances it will be to little avail if the Trustees – the very people who need to know what's going on – are not engaged?

We will never be able to bore our readers into an appreciation or understanding of the figures. We need to know our audience and think afresh as to how we can present figures to that audience in an imaginative and attention grabbing way.

The management reports we produce must not only enlighten and inform but light the fire of curiosity in the reader.

BACKGROUND

The perceived problem

It started with the sad thought that I spent a considerable amount of time preparing management accounts but they seemed not to be read by the majority of the Board, the non-financial ones at least, and certainly not enjoyed. Arriving at the financial report section of the Trustees meeting previously engaged Trustees would either look out the window or look to the Treasurer for comfort; if the Treasurer had looked at the figures and seemed content then no need for them to worry.

There had to be a better way. I could write a detailed commentary on the figures explaining variances but I feel this is a filter; I am imposing my interpretation of the information, pointing out what I think to be important.

To accountants a page of figures tells a story or shows a picture depending on your preferred learning style and once you know what you are doing you can read that story or gaze at the picture and easily see what it portrays. I realise now that the picture we should be aiming for in order to help the Trustees is one like Picasso's line drawing of his dog, Lump.



It is simplicity itself; a single pencil line which clearly portrays not only a dog but very obviously a dachshund. It is not easy to produce something that simple. The temptation to add a little more is overwhelming. The task I set myself was prepare management accounts for Trustees which show just enough detail to be able to make out the form but not so much detail that it distracts. More detail on Picasso's drawing might let the viewer tell if it was long or short haired. But that isn't relevant if all you need to know is that Lump was a dachshund. In the same way, the Trustees need to know if costs are under control; they don't need to know that we spent 3.26% more on the telephone this month than we thought we might when we set the budget nearly 18 months ago.

I wanted to be able to produce a set of management accounts presented in such a way that it allowed all Trustees not just the financially trained or experienced ones to be able to see that picture or read that story for themselves with no intervention from anyone else.

I have received a great of encouragement; once I had raised the problem it was clear I was not alone with my dilemma. One person, not an accountant, hit the nail on the head saying,

The trouble with you accountants is you are just not good at explaining things.

The phrase which has kept coming up is **can't see the wood for the trees**. At heart this exercise tries to find a simple way of striking the right balance – enough information to be able to see the big picture but not so much that the reader gets bogged down in detail and ultimately put off.

I thought using colour would be the answer but the first Trustee I spoke to said he didn't like reading things on computer, preferring to print papers and he didn't have a colour printer so everything would have to be in black and white. Such constraints while initially annoying turn out to be stimulating, forcing you to think creatively to find ways round the problem. It may be that the solution is to send printed copies of papers to Trustees.

I'd like to think of this as not so much a presentation as a provocation, putting forward a prototype for discussion and improvement.

Approach to the research

If you were hoping for a report along the lines of I sampled 150 sets of management accounts 3% of which had a cash flow, 17% used colour and so on and so forth then I'm afraid you will be sorely disappointed. This is largely anecdotal so far, but the quantitative approach will come in phase 2.

This paper presents the preliminary findings after months of research and much thinking and reading round the subject. I read about management accounting in an attempt to understand where the currently used format of accounts might have come from. I read about how the brain works and how we see things. I spent time reading about how to present information to best advantage, what to leave out as much as what to put in. The researches have raised more questions than they answered.

Reading made me realise that there is nothing new under the sun. Dashboards, I discovered, were first used in France in the 1920s. The Balance Scorecard was an updating of a management technique used in the 1950s. KPIs have been crucial in good management for

decades merely called the more instinctive benchmarks or yardsticks. C Northcote Parkinson raised the problem of Trustee understanding of figures, albeit humorously, in the 60s when he coined the phrase 'The Point of Vanishing Interest'. We have much to learn from the past.

I suspected the answer to the problem lay elsewhere and we could learn from other disciplines especially those which need to present information succinctly – hence the opening quote from David Ogilvy, by his own admission an outstanding copywriter and creator of one of the most successful advertising agencies. It is simple but true and in some ways the answer to the question I posed – we just need to be less boring and more interesting in how we present information.

How to improve

I'm trying to make us look at the problem in a different way. In a more imaginative way. Dare I say in a more playful way. And, like a child, I want us to be constantly asking questions. Why do we do things in a certain way? Don't accept it because it was always done that way. Why are we producing management accounts in the first place? What does some piece of information add and if it can't be justified, take it out? Who are we preparing the management accounts for? This last question is one I suggest we don't think about.

Only one person so far has not agreed with my premise: his response,

I don't have a problem because I don't show the Trustees anything. And anyway management accounts are about the past.

Curious though the statement was it did set me thinking and off on another trail; what is the purpose of management accounts?

We produce our management reports every month or quarter or whatever but how many of us take a step back and ask why producing these management accounts. You might think – what a silly question? Of course we need to produce them: we need to keep an eye on what we are doing. I'm not disputing the need to produce management reports. I want us to ask why this format.

The finance committee and the Treasurer are there to hold to account. They have a monitoring role. But they also are there to provide strategic information.

I am suggesting that we pause and look, for once, at what management accounts are trying to achieve.

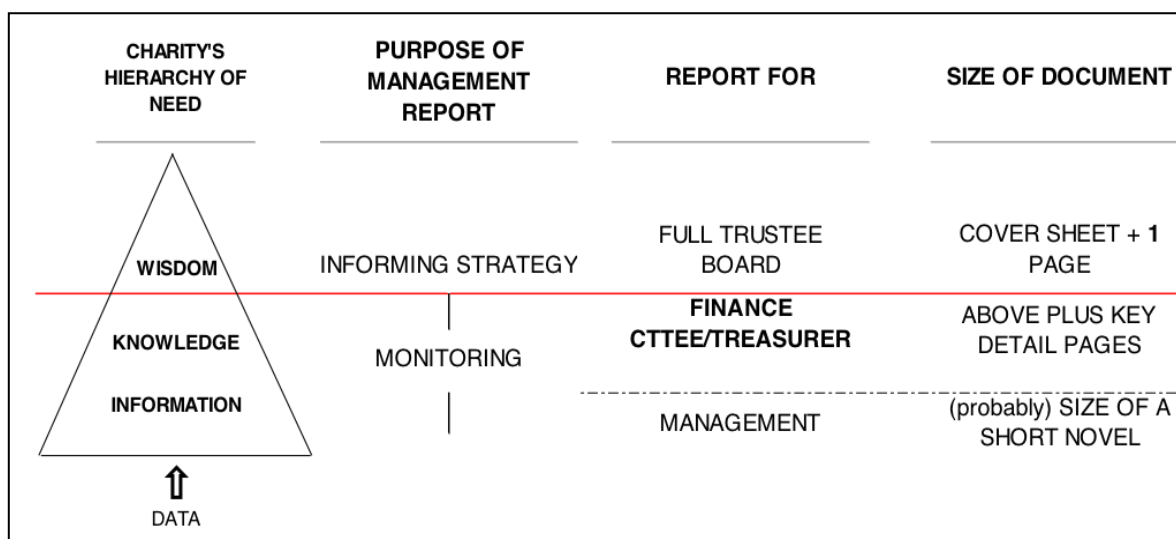
I suggest that management reports serve at least two purposes:

- | | |
|-------------------|---|
| Monitoring | this is obvious – how much money have we spent and did we spend it on the things we intended? |
| Strategic | are we using our resources wisely to achieve our aims and objectives? |

The first purpose is in the present, looking back at past actions and the second, the strategic purpose looks forward. The information needed to produce each report is the same; it's how you present it that is important and will make the difference. To monitor you need a lot of detailed information. To make strategic decisions you need to be able to see the big picture without getting bogged down in detail.

The knowledge pyramid below is a well-known information management device.

I think it becomes more interesting if approached from a charity's perspective with its requirement for good governance – what I am calling, to borrow from Maslow, a charity's hierarchy of need. What is needed for a well-run charity? Data – crucially not just financial – feeds in at the bottom of the pyramid, is categorised and converted into information which is distilled into knowledge. Knowledge alone is not enough: interpreting that knowledge leads to wisdom.



The management reports which inform strategy sit at the top level of the pyramid. Below that dotted line the main aim is to monitor the good running of the charity; same information but different emphasis and different quantity. The finance committee and the Treasurer are there to monitor and hold to account and in order to do that effectively they will need more detailed information. One size most emphatically does not fit all.

Are dashboards the answer?

Dashboards as a technique I rejected. The similarity between driving a car and running a charity is not immediately obvious. I would contend, though many might not agree, you can drive quite safely with only 1 piece of information– a fuel gauge to make sure you aren't going to run out of petrol. Anything else, while possibly useful, is in danger of causing information overload which becomes distracting.

How does this translate for Trustees, mindful of their duty to good governance? For the fuel gauge read cashflow; have we got enough cash to keep us going and pay the salaries at the end of the month? What is really important is the map telling you how to get where you want to go. A dashboard doesn't tell you that.

Dashboards also suffer from showing normally only one variable which might at that time show a green light but the same information put in context may point to quite a different story. I rejected dashboards in favour of the more enlightening and space saving technique of bullet graphs, invented by Simon Few and able to capture a number of variables in a small space.

MY PROPOSED PROTOTYPE MANAGEMENT ACCOUNTS

How to pull everything together

Method

I had intended to work through examples of management accounts sent to me then work with a charity and its Trustees to come up with a simplified yet informative new management report. Although people were very generous with their information it became obvious that confidentiality was going to be an issue. To get round this problem I set up my own virtual charity – the **Phyllis Stein Arts Centre**. I devised a programme of activities for the year, made up the figures to go with them, prepared a very dull set of management accounts for the first quarter, figures constructed in such a way that show The Arts Centre is not too stable if you care to look and present the right information. I recruited five real life Trustees to enter this fictional world. They represent a not untypical Trustee body being by profession a retired educationist, a lawyer, a consultant, an administrator and one accountant. Two are currently Trustees of charities.

All were eager participants and threw themselves wholeheartedly into the exercise. This project would have been much the poorer without their help and support. I am grateful to them for giving me the opportunity to see the management accounts through their eyes, to understand what would help them have a better understanding of the financial situation.

A reverse brainstorming session, a useful technique to help see problems in a different light, posed the question: *what would make the current management accounts worse?*

In answer the Trustees came up with some key observations:

- **Context:** much to my surprise the figures didn't pose concern provided they were put in context.
- **Size:** Trustees were more likely to read the management report if shorter.
- **Terminology:** simple words – not jargon.
- **Engagement:** the Trustees wanted to see the management accounts as a dialogue not just a one way receipt of information.

The proposed format

Below is my suggested format for the Phyllis Stein Arts Centre. It applies to that organisation. The detail might not apply to other charities but I hope the principles can be adopted.

I imagine that the format would be agreed with the Trustees at a Board meeting and reviewed annually, say at the AGM, to make sure circumstances haven't changed.

The management report is 3 pages long:

- **Page 1:** Setting the context and engaging the Trustees
- **Page 2:** The headline figures
- **Page 3:** The detail

Page 1: Setting the context and engaging the Trustees

- Contains no figures, deliberately.
- Begins with a quote from the press – to inform Trustees what has been happening.
- High and Low points from the time since the last meeting: these would be provided by the departmental heads. Allow the Trustees to put the figures which are about to come in context.
- Questions: to engage the Trustees and give them some things to think about before the meeting; can steer the discussion. This will require thought from the Finance Department and might be seen as a bit quirky but it should attract attention. I imagine the last question at least being not immediately obvious to make the Trustees think.

Page 1: Setting the context and engaging the Trustees

Management Report to June 2013

“a never to be forgotten evening”

Mordent Echo revue of Hedda Gabler, the Musical June 2013

High and low points to report April to June

Literary Festival	attendance in numbers was at a record high thanks to the last minute two for one offer on all events	Timing clash with Hay Festival a serious issue
Performances/cinema nights	Cinema nights becoming increasing popular	Some recent music performances have proved difficult to sell, not helped by frequent problems with the box office system
Fundraising	Burnham Bites Fine Foods to sponsor Community Panto	Major sponsor of Literary festival withdrew at last minute
Bar	New menu proving popular. Often full at lunchtime. Manager would welcome comments from Trustees	Still 2 vacancies to fill; using agency staff
Opera For All	Much interest in the staging of Britten's little known early comic opera, The Salmon & the Sturgeon	Sales starting to pick up with the introduction of offers
Music in Schools	considerable press coverage. Managed eventually to find musicians able & willing to work with toddlers	Bookings for the half term orchestra disappointing
Community Panto	Costs should be reduced as we can now share costumes with Mordent Light Operatic; their production of the Mikado runs to Dec 10th	Despite good press coverage several parts still to cast. Aladdin is proving elusive

Three questions

1. Both the box office system and the boiler need to be replaced: which should take priority?
2. Raising sponsorship has been difficult this year: how do we remedy that or do we look for other, commercial sources of revenue?
3. In a crowded market is the Literary Festival financially viable?

Page 2: The headline figures

- Context: box containing the charity objects so that the Trustees never lose sight of the charity purpose.
- Last meeting decision: box to remind Trustees of the discussion at the previous meeting.
- Benchmarks: quick reminder of what Trustees consider important – not necessarily financial.
- Trends: again not all financial; sparklines a quick eye-catching way of looking at trends.
- Key figures: these will vary charity to charity but these are the ones important to Phyllis Stein Arts Centre:
 - Profitability: at a glance what activities bring in money and what need to be subsidised.
 - Cashflow: crucial in this case – but put in context of last year as well.
 - Income sources: could be something else which needs highlighting.
 - Reserves: at a glance look at where we might be at the end of the year.

Page 2: The headline figures

Management Report to June 2013

Phyllis Stein Arts Centre

STRATEGIC AIMS & OBJECTIVES

Provide top quality events for all ages

Engage with new audiences

Provide opportunities for all to participate

Concerns from May meeting

literary festival	slow ticket sales
Bar	high staff turnover
Box office	software not coping
Friends	low renewal rate

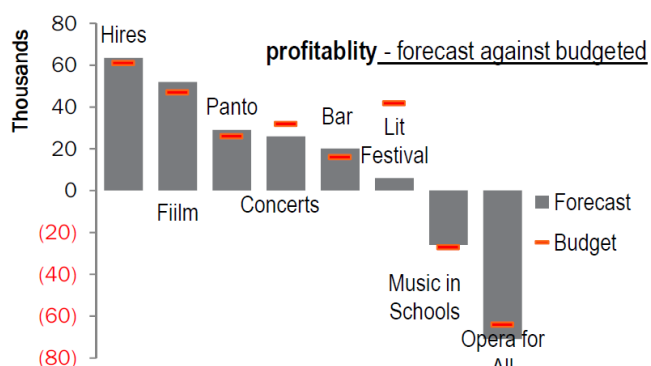
Benchmarks

	aim	actual
Box office	75%	72%
new attenders	25%	18%
new sponsors	10	2
audience under 55	30%	23%
av weekly mentions in local media	4	2

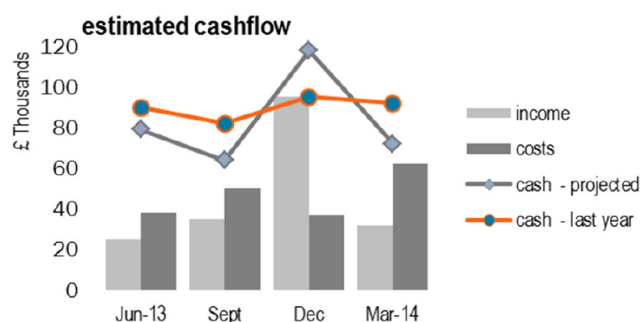
Trends over last 8 quarters

	Bar profitability
	Friends income
	film night attendance
	average age of attender
	no of online booking crashes
	ice cream sales
	visitors through the door
	visitors attending events
	staff turnover

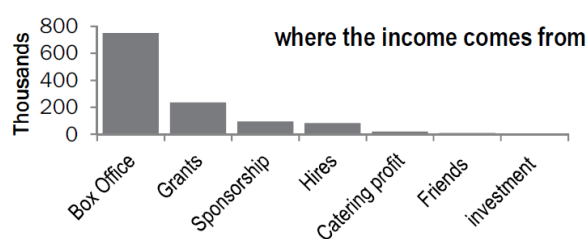
Key Figures



what's contributing to core costs and what needs to be subsidised from the core grant



cash in danger of dipping below reserves policy level at end of year



Page 3: The detail

(This page should be printed on A3 paper)

- Explanations of variance are alongside the figures – down the left hand side.
- More detail on the right hand side of projects which need more explanation – again shown as sparklines.
- Blank box: to be filled with concerns raised at this meeting. This will form the box on the top left at the next meeting
- SOFA statement: a form of probability accounting:
 - shows actual to date then figures which are contracted or committed.
 - The uncertain figures are then split into 3 categories:
 - highly likely income or expenditure
 - Income or costs which may or may not happen (50:50)
 - Income and costs which are highly unlikely.
 - Adding through actual + definite + all three possible = forecast for the year.
 - Discussion will be needed with the departmental heads to decide which category to assign.

Page 3: The detail (to be printed on an A3 page)

as at June 2013

Concerns from May 2013 meeting

Literary festival slow ticket sales
Bar high staff turnover
Box office software no longer coping
Friends low renewal rate

Literary festival - May

attendance up but income down thanks to offers
Main sponsor withdrew at last minute
overall made a loss of £9,000; expected surplus of £41,000
serious drain on resources

Opera for all - September

Ticket sales slower than in previous years.
challenging
Using childrens choirs from local schools should guarantee some sales
£30,000 sponsorship confirmed

Premises

ongoing battle with the aging boiler has led to higher maintenance costs this quarter.

costs

Bar

better stock control has increased profitability.
New menu currenly on offer profitability low
Demand to stay open for pre theatre suppers

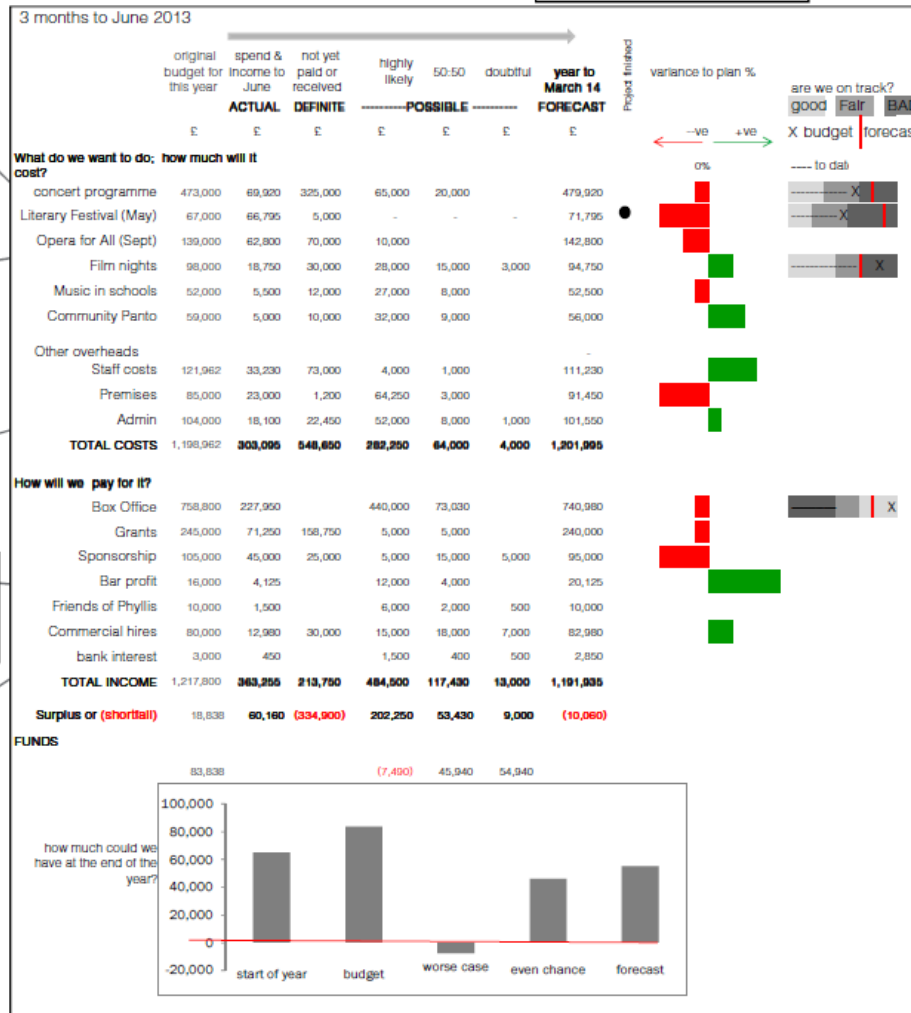
Commercial hires

Youth theatre group not yet paid for weekly hire of studio space for Saturday workshops.
Currently performing in Edinburgh
Use of meeting rooms by local business increasing

OUR STRATEGIC AIMS & OBJECTIVES

Provide top quality events for all ages
Engage with new audiences
Provide opportunities for all to participate

Benchmarks		far
Box office	75%	72%
new attenders	25%	18%
new sponsors	10	2
audience under 55	30%	23%
av weekly mentions in local media	4	2



Phyllis Stein Arts Centre

September 2013

Literary festival - last 5 years

events	
attendance	
box office income	
cost of speakers	
sponsorship income	
surplus	

URGENT

We need to make sure
as many of the 50:50 costs turn into savings
&
the 50:50 income materialises

Things to monitor in coming quarter

Presentation

- The brain doesn't take in boring things; make it attractive to the eye.
- Remove the distracting clutter on tables and charts.
- Use lots of white space.
- Make the font large enough to read easily
- Align text on the right hand side to be closer to the figures

How it has been received so far

I have presented the preliminary version at various CFG meetings round the country and to some charity finance directors who contacted me at the start of the process. So far it has been well received with very encouraging comments. It is seen as thought provoking, which was the aim. My favourite complement (I'm taking it as such) was

I always knew accounting was an art not a science; I think you have just proved it.

I'm particularly gratified that it is being taken up by charities to use within departments not just at Board level; one reported back that her Head of Fundraising was particularly keen to try it to report to her staff.

PHASE 2

My suggested management account layout isn't perfect yet by any means. But it is a start which I hope will prompt a debate so that this prototype can be worked on and improved. This developmental phase has been anecdotal. The next phase will be quantitative and qualitative.

I would like to work with a number of charities interested in becoming early adopters working with the Trustees over a year to devise a new form of management accounts which suits their charity assessing at the end of the year what difference the new format has made to their understanding and decision making. Please contact me at hilary.seaward@gmail.com or visit www.hilaryseaward.org if you would be interested in taking part.

SUMMARY OF KEY PROPOSALS:

- Loose the clutter: make the report look as attractive as you can.
- Choose the type face wisely - large enough for all Trustees to be able to read them without the aid of a magnifying glass.
- Keep them short - 3 pages maximum.
- Engage the reader - ask questions for them to think about before the meeting, questions which can be used as a starting point for discussion.
- Always start with the Charity objectives so no one can lose sight of them.
- Explanations should be right next to the figures, not on a separate page.
- Move finance as high up the agenda as possible, not only so Trustees aren't too tired by that stage but more importantly to inform other discussions and decisions.
- Don't call it management accounts on the agenda...pose it as a question, anything to make people wonder what is coming and spark their interest.
- Keep the language simple - don't use jargon.
- Don't be afraid to be playful and quirky -things are more likely to stand out or stick in the mind.
- Review the format annually. Agree with all Trustees what is important, what the benchmarks for the coming year should be, what information they would like to know and use that as a subtle training session if necessary.
- Above all make them interesting - something people will look forward to reading. Ask yourself *would I spend time reading this if I didn't have to?*

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- an article written by a Trustee of the Phyllis Stein Arts Centre which I turned to again and again, serving as it does as a reminder of the power of language and showing how a simple narrative simply told can so successfully draw the reader into an unfamiliar world.



Charity Finance Group
15-18 White Lion Street
London N1 9PG

www.cfg.org.uk

info@cfg.org.uk

0845 345 3192

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