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# 19

# Not-for-profit Organisations

## 19.1 Introduction and objectives

Not-for-profit organisations are often overlooked in management accounting texts but, particularly in events, hospitality and tourism sectors, they are any important part of the economy and it is essential to consider how management accounting can be fully utilised to support such organisations.

After studying this chapter you should be able to:

- Define not-for-profit organisations
- Understand the importance of this sector within hospitality, tourism and events
- Analyse management accounting techniques of particular use within these organisations; and
- Understand how the not-for-profit nature influences accounting orientation and importance.

## 19.2 Defining a not-for-profit organisation

A not-for-profit organisation is one whose key focus is not on generating profits, also referred to as non-profit organisations. This sector encompasses charitable organisations and governmental bodies of all shapes and sizes. Just like 'for profit' organisations these vary in sizes from a local village-based charity to large international charities which are multimillion pound operations. Governmental bodies again can range from local government, to national government to international bodies. This can include police forces, national health services, and social care facilities. The full range of the community, social and voluntary organisations are endless.

In such organisations the end motive is not to generate profits to return to owners or those that control the organisation. That doesn't mean money and

financial control are not critical to survival. In such organisations the terms profit and loss are replaced with surplus and deficit. Such organisations will have a social, environmental, or cultural goal and producing a surplus to reinvest back into this is part of their survival and growth to benefit their assigned 'good cause'.

In essence in the not-for-profit sector, monetary value can be seen as a 'means to an end', aiding the meeting of its goal and purpose, but monetary value is not an end in its own right. A number of estimates exist country by country of the size of the sector. A number of sources estimate over 1.4 million in the USA, a report in Australia (Commonwealth of Australia, 2010) estimated 600,000 in Australia, contributing \$43 billion to Gross Domestic Profit (GDP) and accounting for 8% of employment. In terms of their development over the years, such organisations have had to be more cost-efficient and just as is the case with profit-based commercial organisations, productivity is of increasing importance.

Johns Hopkins University, USA, have undertaken much work into the classification of non-profit organisations and their work on the International Classification of Non-Profit Organizations (ICNPO, see Table 19.1) is well recognised (United Nations, 2006). Their classification is the standard used in many countries and recognised by the United Nations. ICNPO breaks down such organisations into 12 activity sections and each of those is further subdivided. The following provides examples of what is included in this classification.

**Table 19.1:** ICNPO 12 classifications

Classification	Includes
Culture and recreation	Arts, performing arts, sports, zoos, aquariums, sports clubs, recreation and social clubs
Education and research	Schools, further & higher education, universities, adult education, research bodies, medical research, social science research, policy studies
Health	Hospitals, nursing homes, hospices, mental health services, health education services
Social services	Child services, including day care and welfare, youth services, family services, services for the elderly and the disabled, disaster and emergency prevention and control, refugee assistance
Environment	Animal protection and welfare, wildlife preservation and protection, pollution assessment and control, environmental management
Housing and development	Community and housing projects, housing associations, job training projects, community furniture projects
Law, politics and advocacy	Civil rights organisations, ethnic associations, victim support, offender rehabilitation, political parties and associations
Philanthropic intermediaries and voluntarism promotion	Grant-making foundations, fund raising organisations and promotion of volunteering organisations
International	Exchange and cultural programmes, international disaster and relief organisations, international human rights and peace organisations
Religion	Churches, synagogues, mosques, monasteries, religious associations
Business associations, professional bodies and trade unions	Professional organisations, labour/trade unions, business associations that promote or advise businesses
Not classified elsewhere	Cooperative schemes, non-profit manufacturers and retailers

## 19.3 Their significance to the hospitality, tourism and events sectors

The impact of the not-for-profit sector on the hospitality, tourism and events sector can be separated into two key groups: not-for-profit organisations working in providing hospitality, tourism and event based services; and not-for-profit organisations that use hospitality, tourism and events organisations, particularly in relation to fund-raising opportunities.

### 19.3.1 Example – British Heart Foundation

Their mission relates to having a leading role in fighting disease related to the heart and blood circulation system and to reduce its impact and reduce death rates (British Heart Foundation). Their total income in 2011 is reported as £233,398,000. This comes from: return on investments; profits from retail activities (mainly shops); legacies; and fundraising. Fundraising makes up 30% of this total income. One key way they encourage fundraising is through the running of events – viewing their website ([www.bhf.org.uk](http://www.bhf.org.uk)) it is possible to see the range of events that take place – walks, hikes, jogs, runs, skydives, swims, international challenges, school and youth group events, to name a few.

So whilst this is a charity with a mission that is not financial it is a multimillion pound operation and has to raise funds in order to achieve its mission. It has to have tight financial controls, both to record and manage the income coming in and to ensure administrative costs are kept to a minimum so maximum financial resources are available to meet their charitable mission. The employment of a finance team, event managers, fundraising managers, and grant funding staff (monitoring research grants) all ensure things run smoothly.

Events managers in this environment need to maximise participation and fundraising by individuals, whilst ensuring the event costs are kept to a minimum in order to maximise the surplus available for achieving the set mission. Food and beverage facilities required at such events show the hospitality aspect of such events. International charity challenges can be arranged directly by such charities or outsourced to tourism and travel companies and tend to be fully inclusive ‘holiday’ style packages.

### 19.3.2 Hospitality and the not-for-profit sector

When considering the ICNPO it can be seen a number of organisations are involved in the provision of hospitality services. These include catering in hospitals, prisons, children’s homes, schools, universities, museums, ‘meals-on-wheels’ and staff catering facilities. In addition to these not-for-profit operations, commercial hospitality venues can be involved in running charity events. Such activity may be viewed as part of their corporate social responsibility (CSR) and seen as a way of giving back to the local community and to society more generally. Celebrity