STANFORD SOCIAL INNOVATION *review*

Blog : Nonprofit Accounting Rules Not the Solution to For-Profit Accountability

In *The New York Times* Feb. 17 op-ed, “Soup Kitchen Accounting,” Dietrick and Granof suggest that the banks now being bailed out with our tax dollars need to be held to strict public account and therefore should take a page from the nonprofit accounting manual. God forbid. We do not approve of torture.

If the question is how to make banks more functional, or how to ensure that they are now doing the right thing for us with our collective investments, you have to look elsewhere. To be sure, banks requiring public money to bolster balance sheets or fund unprofitable operations should be required to account for themselves, fulfill explicit objectives and—well--deliver. But nonprofit accounting is a fast track in the wrong direction.

No matter how badly the money center banks have been managed (and these folks have evidently broken all previous records on a number of counts), they don’t deserve the dysfunctional, punitive accounting rules that hamstring the nonprofit sector now. Our rules are management-unfriendly in numerous and inordinate ways. They violate the matching principle, conflate regular operating revenue with capital infusions (to general puzzlement of boards, funders and managers) and faithfully reinforce a sector-wide logic error: the substitution of inputs (how, in dysfunctional and paralytic detail, did you spend the money?) for a metric of true transparency--results (what happened as a result of spending the money?) This has let to a debilitating sector-wide obsession with meaningless benchmarks such as overhead rate and fundraising expense—to the detriment of understanding what works, robust capitalization and constantly improving results.

And thus to the banks. We need to look at the banking system for what it is, necessary public infrastructure. And the goal here is to save them from failure. Beyond the blood sport of punishing them, our enlightened self interest would encourage us to seek solutions that allow them to recover. And that would include returning them to profitability. And an uncomfortable “aha” for us is that for money center banks, conventional lending of the type we need to be able to lubricate the economy is largely unprofitable. Moreover, most banks now accommodate two or three shadow decision-makers in the person of regulators from the OCC, FDIC, Federal Reserve and others. Several layers of bureaucratic and regulatory oversight has already slowed loan production, workouts and operations, reducing already narrowed margins to zero and demoralizing the last bank staff standing. We can tell you…nonprofit accounting would be the final straw. Nonprofit accounting takes us far, far away from the ownership information that we, the outraged – and reluctant – equity holders should expect.

The authors’ point about accountability is reasonable, but their conclusion is not. As the adage goes, “accountant, heal thyself!” The conclusion should be that if the trusted professional infrastructure of the economy—bank regulators, bond rating agencies, consulting firms, securities dealers and yes, accountants—had been doing their jobs with the perfectly adequate tools that for-profit accounting and disclosure rules provide, we might not be in this mess. And then the nonprofit sector, (hampered as it is with an obfuscatory and expensive set of accounting rules) would not be cleaning up the human damage with food banks, homeless shelters and emergency medical clinics.

Clara Miller is President and Chief Executive Officer of Nonprofit Finance Fund (NFF), the only national financial intermediary exclusively committed to social sector finance. Miller speaks and writes extensively about nonprofit capitalization and finance, and has been published recently in the Financial Times*, the* Chronicle of Philanthropy*,* Community Wealth Vanguard*,* Stanford Social Innovation Review*, the* Nonprofit Quarterly*, and* Worth Magazine.

Source URL: http://www.ssireview.org/blog/entry/1278/

© Copyright 2009 Stanford Social Innovation Review, All Rights Reserved