blackbaud

The Mission-Infused Nonprofit CFO: Aligning Mission and Finance for Success

Russell Pomeranz

President and CEO,
Claverack Advisory Group

CONTENTS

The nonprofit financial world is changing quickly, and the isolated CFO has been rendered obsolete. The future nonprofit CFO is a mission-infused, proactive leader who interacts with a finance-driven program and administrative team. Finance and mission are integrated and inseparable, and it's important to understand how everything connects. The ultimate goal of the mission-infused finance capacity is a sustainable nonprofit that is able to invest in its mission and strategy over time to meet the demands and needs of a continually evolving world. The connection between finance and mission that leads to organizational success is manifest in these three goals.

1. Partnership and financial function integration with all sectors of the organization
2. Alignment of short- and long-term goals with all partners
3. Access to the tools to achieve mission-infused organizational practices

CONTRIBUTORS

Author

Russell Pomeranz

Contributors

Edited by **Meredith Jones**

Cover art and book design by **Kailie Holt**

1 STRONG, PROACTIVE PARTNERSHIPS ARE ESSENTIAL

The following partnerships must work together to ensure mission success on all levels.

PROGRAM AND FINANCE AT THE LEADERSHIP LEVEL

Those in charge of financial leadership need to know what's driving the programs, how ambitious the organization is with those programs, what resources will be needed, and how to partner in achieving the programmatic goals. The program leadership must appreciate how the finance team can help achieve the mission goals in the short- and long- term.

FINANCE LEADERS AND TEAM

The entire financial team must be driven by the mission. Leaders and members must know, care, and be involved in what the organization does. This knowledge and passion builds relationships and an understanding of how the organization works, its goals, and what constitutes success. Program management expects and needs the entirety of the finance department to understand the core structure of its activities. This common language allows everyone the ability to discuss financial performance, budgets, forecasts, proposals, and financial analysis in keeping with mission success.

EXECUTIVE LEADERSHIP

Nonprofit executives are being evaluated not only by their programmatic initiatives and strategies but also by the revenues they find, the cost discipline they instill, and the goals they set for the bottom line. Unrestricted net income is a critical metric of financial and business performance, as well as executive managerial leadership and success. The nonprofit executive director who can build up capital and save it for a rainy day or effectively re-invest it in a proactive strategic decision to fund new initiatives will achieve mission success.

FINANCE/AUDIT/INVESTMENT COMMITTEE AND THE BOARD

The relationship between the finance committee and the board has become much more nuanced and complex in recent years. Finance committees and boards often interpret fiduciary responsibility as a short-term outlook with a focus on cost constraints. There is less comfort with taking necessary financial risks for longer term programmatic gains despite their relationship to long-term success. The upside is that a flexible, thoughtful, and educated finance committee can play a key role in defining financial goals and providing the discipline necessary to achieve those goals. Committees are increasingly expecting nonprofit CFOs to explain the financial story over time and connect it to the mission and the organization's success.

FINANCE AND DEVELOPMENT

Nothing can be more confusing and ultimately debilitating than a lack of consensus on the kind of revenues that need to be raised by development. For example, there could be confusion about whether the revenue needed should be unrestricted to close gaps or to build reserves. Do the dictates of the major donors align with the organization's mission or strategy? Is the organization willing to give up control of mission goals for financial imperatives or easy access to cash? Finance and development teams have to be on the same page with management about the organization's short- and long-term needs. Otherwise, major programs may be under resourced and fewer mission-critical programs get fully funded. Agreement also plays an important role in cash management and cash flow, depending on which funders are most reliable on a timely basis.

2 MISSION ALIGNMENT IS KEY ACROSS THE ORGANIZATION

Where do the mission-infused finance function and its identifiable partnerships work together? What are the most important finance and mission goals? The following are priorities for alignment:

UNRESTRICTED NET INCOME FISCAL YEAR PERFORMANCE

Program leaders need to understand their role in achieving specific financial goals. But how do they contribute to organizational goals about the bottom line? The finance team has to educate the program leaders about the importance of these goals and their impact on all constituencies.

For example, program effort without strong administrative support and partnership diverts attention from the goal at hand and does not supply the maximal resources necessary for programmatic success. Running organizational unrestricted surpluses over time is generally a path to organizational financial stability. However, deliberate deficits incurred due to investments in strategic plans, information technology, and new programs or leadership are worthwhile and relevant trade-offs for long-term success.

REVENUE GROWTH AND EXPENSE STRUCTURE STRATEGIES

Understanding the need for unrestricted and restricted revenue growth requires an investment in a development capacity. Financial goals must be aligned with development and program goals to determine what revenues to pursue and the impact they will have. CFOs should determine the magnitude, duration, and diverse types of revenues these two departments need to achieve programmatic and mission goals.

Finance and program departments must work together to maintain a viable and efficient program and administrative cost structure. The question of structural trade-offs and programmatic impact must be addressed during the budget process and throughout the fiscal year. Scenario cost planning and contingencies in the short- and long-term are critical components of financial analysis that must be acted on and agreed upon in a structured and disciplined way. All involved parties should understand the financial ramifications identified through the analysis.

SUSTAINABLE BUSINESS MODELS AND ACCESS TO CAPITAL INSIDE AND OUTSIDE THE ORGANIZATION

The ability to build a pool of unrestricted net assets is critical to ultimate strategic direction and mission independence. Whether it is through an endowment or board-designated reserve, the willingness to risk short-term deficits for long-term financial and programmatic gain is extremely important. The program staff members needs to know that their contribution to organizational reserves should come back to help if they ask for compelling programmatic initiatives. An example of the finance department driving the effort to fund strategic initiatives would be if it drew an additional 5% from the net assets pool and invested it into long-term revenue and programmatic results. If outside capital is necessary, programmatic planning must always be in motion. Opportunities can be missed if the new ideas aren't generated or current working ones aren't supported.

3 TAKE ADVANTAGE OF TOOLS THAT ACHIEVE MISSION-INFUSED PRACTICES

Let's assume that technical skills of a nonprofit CFO are a given and the underlying numbers can be trusted. What tools, systems, and characteristics are available to blend finance and programs for overall mission success?

CULTURAL, PROGRAM, AND MISSION IMMERSION

The finance department must learn about the programs to understand what its partner does. Here are some specific ways the finance team can succeed at this:

- Finance representatives need a seat at the organizational leadership and decision-making table. Whether it's weekly or monthly, the periodic meeting of the inner circle must include the CFO.

- The finance department needs proactive support from the executive director, board, and senior program leaders to lend credibility to the financial function. The team must be recognized publicly for its financial role in the mission success of the organization. The CFO may have to explain to the executive director and board that doing so encourages finance function involvement.
- The finance team should be expected to go to program meetings and events and read mission-related findings and goals.
- The finance department should distribute finance committee reports to the senior program management. Members should sit down with leadership and review the fiscal year audit and explain key financial reports.
- The finance team must approach the organization as an amalgamation of businesses that need to grow, expand, collaborate, and run efficiently to achieve mission goals.
- Members in finance should understand the relationship between programmatic metrics and the financial implications. This is relevant in fee-based or performance-based grants and contracts. Social Impact Bonds are a good example of how the finance and program functions must understand the probability of programmatic success and the risks of financial failure.

COMMUNICATION

The ability to tell financial stories and connect them to the organization's mission is extremely important if you want all constituents to work together. Here are several ways to maintain quality communication across the organization:

- Share the financial narrative or mini-treatise in an easily digestible way.
- Whether it is discussing fiscal year audited financial results, explaining the context and perspective of the financial past and future, discussing the meaning of the forecast, or prioritizing the goals of the fiscal year budget, the story has to be clear. The narrative presented to the finance committee or board enables the finance department to frame or control the discussion, especially if budgetary approval is required.
- Maintain strong written and oral communications on a day-to-day basis.
- Unfortunately, program representatives can often take the easy way out and say that the finance team doesn't understand or can't communicate the program's needs and wants to the decision makers. Often the finance team can't effectively communicate its own needs and wants. CFOs have an organization-wide perspective, so communication skill training is a great investment. These skills are also helpful for the finance team when building compelling cases for specific investments or actions.
- CFOs must be transparent with the organization and engage in their own public relations initiatives.
- To gain and maintain entry into the inner circle of decision making, it has to be clear what the financial function successes are and the impact they have on the organization in the short- and long-term. Finance must face its difficult issues head on and be clear about possible consequences. Transparency builds trust. Lack of transparency can lead to a loss of confidence among partnerships within the organization.

INTANGIBLES

Nonprofit CFOs and the financial function must exhibit a wide array of qualities. The following intangible characteristics are beneficial:

- They must display curiosity, judgment, and the drive to get to the bottom of things. CFOs and the financial function must understand that they have to prepare for board and finance committee meetings by anticipating difficult questions from the finance committee.

- They need the restraint and confidence to deal with the possible arrogance of for-profit board members who may not understand the connection between finance and mission. They cannot be afraid to jump in, ask questions, think proactively, and share their observations and sensitivities.
- Nonprofit CFOs must be able to integrate into the organization's culture. If the mission side isn't satisfied with the partnership, it's the CFO who is cast aside. This dynamic may even change the way nonprofit CFOs are hired and educated.
- The MBA degree has already outstripped the CPA as the top choice for a mission and business partner. Those with MPA degrees may be the next best choice, as well as executive directors of smaller organizations or even chief program officers who understand finance, grants, contracts, and budgets. Understanding how the worlds of finance and mission work together to build a sustainable long-term business model is probably the most highly valued knowledge out there.

Ultimately, the state of the mission-infused nonprofit CFO and the organization's financial function is key to a productive nonprofit mission-driven sector. Nonprofit CFOs must dive in eagerly to understand all aspects of the nonprofit mission. They must be driven to achieve and connect mission and financial goals.

ABOUT THE AUTHOR

Russell Pomeranz has thirty years of experience leading the finance and administrative departments of nonprofit organizations with missions related to social services, education, the arts, and think tanks. Pomeranz started his own consulting firm, The Claverack Advisory Group, to focus on the critical connection between the nonprofit financial function and organizational programmatic, strategic, and financial trajectories. Before establishing a consulting practice, Pomeranz was COO/CFO of the Vera Institute of Justice, director of finance at the Council on Foreign Relations, and CFO at Spence Chapin Services to Families and Children. He served as Business Manager of the Maret School where he taught Geometry and is currently an adjunct assistant professor of public administration at NYU Wagner. He has served on the NPCC Non-Profit Excellence Awards Selection Committee for the past several years.

Pomeranz is chair emeritas of the Workforce Professionals Development Institute (WPTI), president emeritas of the Columbia County Historical Society, and treasurer of Jobpath. He also serves on the board of several other nonprofits. He has been published in The New York Times, Chronicle of Philanthropy, The Wall Street Journal, and the CPA Journal. He has a degree in economics from Haverford College and an MBA from the University of Michigan.

About Blackbaud

Serving the nonprofit, charitable giving and education communities for more than 30 years, Blackbaud (NASDAQ:BLKB) combines technology solutions and expertise to help organizations achieve their missions. Blackbaud works in over 60 countries to support more than 30,000 customers, including nonprofits, K–12 private and higher education institutions, healthcare organizations, foundations and other charitable giving entities, and corporations. The company offers a full spectrum of cloud and on-premise solutions, and related services for organizations of all sizes, including nonprofit fundraising and relationship management, eMarketing, advocacy, accounting, payment and analytics, as well as grant management, corporate social responsibility, education and other solutions. Using Blackbaud technology, these organizations raise, invest, manage and award more than $100 billion each year. Recognized as a top company, Blackbaud is headquartered in Charleston, South Carolina and has operations in the United States, Australia, Canada, Ireland, and the United Kingdom. For more information, visit www.blackbaud.com.

© February 2016 Blackbaud, Inc.

This white paper is for informational purposes only. Blackbaud makes no warranties, expressed or implied, in this summary. The information contained in this document represents the current view of Blackbaud, Inc., on the items discussed as of the date of this publication.

All Blackbaud product names appearing herein are trademarks or registered trademarks of Blackbaud, Inc. The names of actual companies and products mentioned herein may be the trademarks of their respective owners.