

The Nonprofit Chief Financial Officer

“In the for-profit sector, the “F” in CFO is what’s important. In the nonprofit sector, it’s a small “f” and it’s the big “C” that’s important. “C” for Chief Fix-It.”

- David Stolow, three-time veteran nonprofit CFO

In this era of increased scrutiny of nonprofit organizations’ financials and performance, higher accountability to the public trust, and the rapid growth and increased complexity of individual organizations in the sector, many nonprofits are focusing on the chief financial officer (CFO) function in their organizations. There is no question that the CFO is an extremely important role within a nonprofit and one that can contribute to the future viability of the organization and its ability to accomplish its mission.

But what exactly are the roles and responsibilities of the nonprofit CFO? Are CFOs primarily finance-focused or do they tend to have broader organizational responsibilities? How do these responsibilities vary depending on the size and type of organization? What unique challenges do nonprofit CFOs face and what are their keys to success?

We set out to answer these questions by talking with a total of 25 nonprofit CFOs. We conducted 17 in-depth interviews and a focus group with an additional eight CFOs. These CFOs worked in organizations representing a variety of sub-sectors, budget sizes, funding sources, organizational growth stages, and geographies:

Sub-sectors including community development finance, consulting, education, human services, and social enterprise

Budgets ranging from \$1.5 million to \$57 million

- Ten with budgets less than \$10 million
- Eleven with budgets between \$10 and \$40 million
- Four with budgets over \$40 million

National and local organizations

Start-up nonprofits to organizations established over 100 years ago

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The individual CFOs represented a diversity of backgrounds, education, and tenures:

Many CFOs, especially those in mid-sized to larger nonprofits, have worked in the for-profit sector and “bridged” into the nonprofit sector within the last 10 years; only a handful of CFOs were “homegrown” in the nonprofit sector

A large majority of the CFOs we interviewed have their Master in Business Administration (MBA) degrees; only a quarter of the CFOs are certified public accountants (CPAs), and most of the CPAs we interviewed also hold an MBA

The CFOs' tenure in their current position ranged from one year to ten years

Over all, regardless of their educational or sector background, the CFOs we interviewed bring considerable experience to the position, with over 20 years of work history on average.

In addition, we interviewed a handful of the nation's top nonprofit financial management consulting organizations and funders that provide their grantees with strategic and operational support, to benefit from their years of experience in building the financial capacity of nonprofit organizations.

While these interviews were not designed to be a fully representative sample of the nonprofit sector, there were clear patterns among CFOs of similarly sized organizations across the country, in terms of the roles and responsibilities of the CFO, major challenges, and keys to success.

The roles and responsibilities of a nonprofit CFO

“The question is: ‘What is it they don’t know how to do?’”

- Jeanne Bell, Associate Director, CompassPoint Nonprofit Services

The responsibilities of nonprofit CFOs in our sample spanned a variety of functional areas – only one of these being finance. Other functions included human resources (HR), information technology (IT), facilities, administration, risk management, legal affairs, and at times, responsibility for a key program area. The main differences in the CFO's role and breadth of responsibility were related to the budget size of the organization and the complexity of the programs and revenue sources.

The CFO-equivalent titles of people we interviewed included:

Chief Financial Officer (CFO)

Chief Financial and Administrative Officer (CFAO)

Director of Financial Services
Senior Director of Finance
Director of Finance
Director of Finance and Administration
Director of Finance and Operations
Finance Director
Fiscal Director

Over all, the role and responsibilities of the CFO follow “almost an inverted ‘U’ curve in function breadth,” explained Clara Miller, President and CEO of the Nonprofit Finance Fund. “As organizations go from small to large, the part-time bookkeeper (narrow function) position at a \$300,000 organization increases in both sophistication and role breadth (i.e. HR, IT, risk, investment, accounting, etc.) as an organization grows to \$10 million. Then the position goes back to a narrower role as those functions are headed up by specialists in large organizations.”

Smaller organizations

“A CFO isn’t for every (or even most) nonprofits” added Miller. “The vast majority wouldn’t be able to make use of most of a CFO’s brain power (or afford it!) simply because they’re too small.” That said, we found in our research that when smaller organizations¹ did have CFOs, they tended to wear a lot of hats. For organizations with budgets ranging from \$1.5 million to \$9 million, the CFO-equivalent title was most commonly Director of Finance and Operations. Sue Meehan of \$8 million Year Up described her multi-purpose role as follows: “Some people introduce me as COO, CFO, Vice President of Operations – my formal title is Director of Finance and Operations. I am responsible for finance, budgeting, cash flow, accounting, IT, legal, HR, administration and operations including facilities, as well as student services.” Jessica Zander, Director of Finance and Administration at The Steppingstone Foundation also wears multiple hats within her small organization. She is responsible for HR, IT, legal, facilities, and finance for the \$3 million organization. Zander described her position as “a catchall role and a typical occurrence in small nonprofits.” The reality for these smaller organizations is that their budgets can’t support multiple specialized staff and yet they need expertise across the various function areas. In smaller organizations the CFOs are sometimes as much COOs as they are CFOs.

¹ We recognize that categorizing all organizations under \$10 million as “smaller” may seem generous given that the majority of nonprofits have budgets less than \$500K. However, for the purposes of our research, we found the \$10 million designation to be most helpful in delineating the role of the CFO within the organization.

Mid-size organizations

Almost half of the CFOs we interviewed were in organizations with budgets between \$10 and \$20 million. The main differentiator among the roles and responsibilities of the CFOs in this segment was the complexity of the organization's programs and revenue sources. In organizations where the program complexity resulted in more diverse financing and revenue sources (such as local, state, and national government funders, and earned income as well as more traditional foundation grants and individual donors), the CFOs were more likely to focus on the finance function. In organizations with less programmatic and revenue complexity, the CFO function tended to span a broader range of functional areas.

For example, Kristen Growney, CFO of Rubicon Programs, is primarily responsible for the accounting functions of the \$15 million organization. Rubicon offers highly diversified programs and receives funding from complex revenue sources including two income-generating social enterprises and local, state and federal government. In contrast, Bruce Skyer, CFAO of Nonprofit Finance Fund, has job responsibilities which include HR, IT and finances. The \$12 million organization's funding comes primarily from banks and foundations with very little governmental funding, making for a less complex revenue structure. Skyer explained, "I'm more like a chief infrastructure officer, as it is my responsibility to structure the finances, the systems, and the organization in order to maximize our ability to serve the nonprofit sector."

Larger organizations

The CFOs we interviewed in organizations with budgets over \$40 million were more likely to focus exclusively on the finance function. Christy Lueders, Senior Vice President and CFO of the \$57 million YMCA of Greater Seattle spends most of her time overseeing the financial aspects of the organization's aggressive growth plans. She explained, "We've launched a large capital campaign supplemented with tax exempt debt, and we're planning four new branches. I'm involved with a lot of the infrastructure issues related to financing the growth in addition to handling the organization's finance and investment choices overall." John Latchford, former CFO of Goodwill Industries of San Francisco, President and CEO of Goodwill Industries of the Greater East Bay, and a board member of Goodwill Industries International, commented, "In Goodwills with annual revenues of \$40-60 million, the CFO role often has narrower responsibilities. Once you get to that size, the CFO does treasury, risk management, and investment in addition to financial reporting – the finance job gets larger and an organization shouldn't spread it that thin. CFOs tend to wear fewer hats as the organization brings on specialists to handle the larger business operations."

The joys and challenges of the CFO position

“I get more fulfillment here in a day than I did in a year in the for-profit world.”

- Bruce Skyer, CFAO, Nonprofit Finance Fund

“It bothers me when people apply the same rules for growth and investment from for-profits to nonprofits. It’s not apples to apples.”

- Mark Cole, COO, Golden Gate Community, Inc.

Almost all of the CFOs we interviewed find their jobs rewarding and fulfilling. Phil Cunliffe, Director of Financial Services at St. Anthony’s Foundation, captured the sentiment well. “I want to be in the nonprofit sector – it’s what I care about, being really mission driven, helping people who are poor or disenfranchised versus being an investment manager and dealing with money managers who are in a whole different world.”

At the same time, our nonprofit CFOs experience a multitude of challenges in their jobs, given the mission of their organizations and the resource constraints nonprofits often face. These challenges can be put into four categories:

1. The rules of nonprofit finance
2. Resource constraints
3. Nonprofit culture
4. Technical skill development

1. **The rules of nonprofit finance**

One of the top challenges CFOs face, especially those who come from the for-profit sector, is dealing with some of the tricky ways in which the nonprofit market operates. The fundamentals of how finance works (or doesn’t work in many cases) in the nonprofit sector underpin many of the following challenges. For example, in most nonprofit organizations, cash received as revenue is not liquid. It is restricted for specific purposes dictated by the revenue source (donor). As Miller noted, this means “restricted cash must then sit in the bank until you go out and buy the item or perform the service its purchaser or donor prescribes... This creates the impression among some that a nonprofit is solvent – flush, even – when it’s actually in a cash crisis.”²

² Miller, Clara; *The Looking Glass World of Nonprofit Money: Managing in For-Profit’s Shadow Universe*, The Nonprofit Quarterly, Volume 12, Issue 1, Spring 2005.

One CFO described this conundrum: “I wish I could invest more in systems – one system I know of will make everyone’s lives easier and more than pay for itself over 10 years. Except we don’t have \$100,000 upfront so instead we’ll probably hire someone and keep them on for five years to do it the hard way.” This CFO added that he sometimes finds himself feeling “wildly inconsistent. One week I tell a VP to cut back on line items, then the next week I’ll find out they won’t have spent enough on the line item for a specific grant, and if they don’t spend it, our organization will lose that funding.” Miller’s funny and insightful article “The Looking Glass of Nonprofit Money: Managing in For-Profit’s Shadow Universe” provides an excellent explanation of the range of challenges inherent in the sometimes exasperating world of nonprofit finance, where the rules of for-profit business do not always apply.

2. Resource constraints

While the resource and staff constraints facing CFOs who grew up in the nonprofit sector were no surprise, they came as a shock to many of the CFOs who had bridged to the nonprofit sector from the for-profit sector. Regardless of the CFO’s background, these constraints presented a very real challenge to most of the CFOs we interviewed.

One CFO recalled starting at her job at a \$12 million nonprofit, “It was surprising, the scarcity of resources. It’s the hardest job I’ve ever had. You’ve got a wealth of problems, you can’t hire anyone to help you address it, you spend a lot of time managing cash flow and doing really tedious things like talking with vendors and working out payment plans...You can’t throw money at it, bring on extra staff, hire a consultant...” Another CFO of a \$13 million organization commented, “It is a cash business when all you have is two months [of reserve] in the bank. You always have to be on top of how much revenue is coming in, what expenses are...keeping on top of that and trying to figure out ways that we can increase that to 6 months...If that isn’t challenging then I don’t know what is!”

For many of the organizations in our sample, the CFO was the only person on staff with formal training and experience in accounting and finance. As a result, the CFO would often end up operating both at the strategic level and the very detailed level. Cole described his situation: “The finance department for our nearly \$5 million organization is just me, our bookkeeper, and a part-time A/P clerk at one of our operations.” Glenda Fishman, Director of Finance of the \$14 million Facing History and Ourselves, commented, “We’re typical of most nonprofits, our staff is lean. I get pulled into nitty-gritty details as well as big-picture strategy – I sometimes have to look at debits and credits. This is true of all my colleagues on the management team; we are challenged

to deal with details more often than we would prefer.”

3. **Nonprofit culture**

The CFOs we talked to noted that several aspects of nonprofit culture present challenges to most CFOs, although these challenges were more pronounced for the bridgers than for sector long-timers. These challenges included the consensus culture, dealing with multiple stakeholders, working with non-financially oriented staff, and figuring out how to measure success in a culture that emphasizes mission over the financial bottom line. Many of the CFOs we interviewed described both the benefits and the complicating factors associated with these aspects of nonprofit culture.

Many CFOs found the consensus-driven nature of decision-making challenging. One CFO reflected, “a lot of times because of wanting to get consensus, decisions never get made...but it’s the downside of the environment for an admirable reason.” A few CFOs also discussed the challenges of having multiple constituents. “The big difference between nonprofit and for-profit is you not only have to keep the boss happy but also your volunteers since they and the board really ‘own’ the organization”, said Lueders. Other CFOs found it challenging to adjust to their board of directors’ much higher level of involvement in the finances of the organization, especially the finance and investment committees. One explained, “it sometimes feels like I have two bosses.”

A few CFOs talked about the challenges of working in an environment where other staff members have limited financial literacy. The CFOs reported that, especially in the smaller organizations, the CFO was often the only one in the organization focused on the financial implications of decisions made in the program areas which led to tension in the relationship between the CFO and program staff. Several CFOs also mentioned difficulty adjusting to measuring success in the nonprofit environment. John Tarvin, Senior Vice President and former CFO of Jumpstart for Young Children explained, “At for-profits, it’s fairly clear that people are managing to the bottom line. It’s harder to reach consensus on what people are managing to in nonprofits. It’s a much more subjective environment.” Lueders added, “I’m coming from the banking world where people are rewarded on their financial performance. At the YMCA, we do track branch performance but we don’t keep track of reserves (retained earnings) on a branch basis, we keep it as a whole – capital projects are awarded based on need rather than which branch made the most money. It’s much more team oriented and about how well the organization as a whole does.”

4. Technical skill development

Many of the CFOs raised challenges related to the technical aspects of their jobs. The technical challenges cited varied depending on the background of the CFO and the size of the organization.

Challenges for bridger CFOs

Several CFOs with for-profit backgrounds talked about the challenges of learning nonprofit accounting and government grant reporting. “Understanding the restrictions on funding, for donors and regulatory reasons, and the legal constraints,” proved especially challenging for Lueders when she first transitioned to the nonprofit sector. Meehan commented, “The accounting details of nonprofits are a lot more complicated than for-profits.”

Not surprisingly, we observed that these technical challenges were often related to the resource and staff constraints of individual nonprofits. One CFO reflected, “Fund accounting is no different than project codes in corporate. The main difference is that nonprofits don’t have the benefit of the sophisticated tools and technology that for-profits do.”

Small organizations

Cole explained, “The challenge in small to middle size organizations is that we have to know about everything. In larger organizations, there are staff members who deal with areas of specialized knowledge, but with our small staff, we have to know everything!” Zander added, “I know the basics of financial accounting, but when we get a donated item for an auction that nobody buys, how do we value it? It’s the special things like this that I don’t know. This role is about understanding what your limitations are, and knowing where to turn to if you don’t know. It’s too much of a liability; you can’t make this stuff up!”

Due to these many and varied challenges involved with the nonprofit CFO position, Hilda Polanco, Managing Director of Fiscal Management Associates described the nonprofit CFO as “the most challenging position to fill.” Jeanne Bell echoed this concern; “The nonprofit CFO is the most nerve-racking hire. Executive directors at small and growing nonprofits often approach the CFO hire without the experience of ever having selected a senior finance staff person before.”

Keys to success

“The ideal CFO is someone who is an active partner to the CEO, bringing a forward-looking and proactive stance to managing the agency’s finances.”

- Michael Park, Director of Management Assistance, Robin Hood Foundation, New York, NY

During our interviews, it became clear that the success of the CFO is dependent on conditions in two important areas: the mindset and skills of the CFO, and the level of support for the CFO position within the nonprofit organization.

The four C's: competent, committed, communicative, and creative CFOs

When we asked what makes for the ideal nonprofit CFO, the responses were consistent across CFOs, technical assistance providers, and engaged funders. The success factors named fell into four categories: competent, committed, communicative, and creative.

Competent – Solid accounting skills and background, nuts and bolts experience in the operations of a business and/or nonprofit, a strategic thinker with a big-picture mentality.

Committed – Passionate about the mission of the organization and understands the realities of the nonprofit sector.

Communicative – Able to speak in non-financial language, can translate and teach financial literacy, relates well to the board of directors and multiple stakeholders, and is a strong writer and communicator.

Creative – Flexible, thinks outside the box, figures out how to say “yes” and make things possible!

Based on 25 years of work building the financial capacity of nonprofits throughout the Northwest region, Kay Sohl, Executive Director of Technical Assistance for Community Services (TACS), summarized the ideal CFO: “My dream person has strong strategic business planning expertise and is really interested in the strategic side of the position, but also has a good technical accounting background, intellectual curiosity and hands-on involvement.”

Supportive organizations

Our research highlighted that even a highly competent and thoughtful CFO will struggle to succeed in an environment where the organization does not understand or value the importance of the role. One CFO described an extreme case in which the executive director “had no sense of business, didn’t want to make the tough calls, didn’t respect what the CFO was saying, and wouldn’t give the CFO any authority to make changes.”

This lack of support can also be a problem at the board level. A CFO who joined a nonprofit as its first full-time CFO recounted, “I don’t know if they were ready to have someone strongly speaking her opinion about how things should be different – both senior management and the board of directors. They were

not used to getting information and having to be engaged. They were used to hearing that things were just fine.”

Fortunately, these examples seem to be less common today than in the past. “In the past, executive directors were seeing the CFO as a purely technical function; they just needed a good accountant,” noted Sohl. “Today’s executive directors have a much better understanding of the CFO role, including planning, management, and strategy – the CFO is truly a partner.”

Jan Bigelow’s experience as CFO at Communities In Schools (CIS) reflects this kind of partnership with the president and the trickle-down effect in the rest of the organization. She explained, “So much of the success of this position depends on the president and how that person views the importance of the financial information. Here at CIS, folks are very much aware of the financial situation of the organization – they want to know how what they do within their own department impacts the entire organization. It’s indicative of how the president views things.” Bell stated, “The executive director must be open to being challenged by someone with deeper finance skills than he has. Up until this point, he may have had the most finance skills of the management team and must now have the readiness and willingness to bring in someone who’s more knowledgeable.”

Conclusion

As the nonprofit sector expands and individual nonprofit organizations increase in size and complexity, there will continue to be a growing need for the role of chief financial officer. Depending on the size and complexity of the organization’s programs and revenues, the CFO role can encompass a spectrum of responsibilities or be very focused on the purely financial aspects of the organization.

The position of nonprofit CFO can be rewarding and intellectually challenging. In ideal circumstances, the CFO is an effective partner to the executive director in guiding the organization to fulfill an ambitious mission. Mike Dunn, CFO of Outward Bound Inc., summarized the CFO position by saying, “The nonprofit CFO job is full of different challenges, it’s a whole different mindset...It’s not the world of high finance that we live in here, and I like that.”

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