

## Frequently Asked Questions: Hiring a CFO

We developed these questions and answers based on in-depth interviews and focus groups with 25 nonprofit chief financial officers (CFOs) and 15 nonprofit technical assistance providers and funders. We also tapped into the Bridgestar talent-matching team’s deep experience with recruiting and placing nonprofit CFOs. The CFOs interviewed represent a diversity of industry sub-sectors, budget sizes, funding sources, organizational growth stages, and individual backgrounds and tenures.

### About the Role

#### **Q: What is a CFO?**

**A:** Depending on the size of the nonprofit and the complexity of the nonprofit’s revenue sources, nonprofit CFO positions vary widely from organization to organization. However, for the purposes of this discussion, we consider any senior-level manager who oversees the accounting and finances for the organization to be a CFO. Other titles used for this position include: chief financial and administrative officer, director of financial services, senior director of finance, director of finance, director of finance and administration, director of finance and operations, finance director, and fiscal director.

#### **Q: What do nonprofit CFOs do?**

**A:** CFO roles vary across organizations, depending on the size and complexity of the organization. Organizations with budgets below \$1.5 million often cannot afford and/or don’t need the specialized skills of a CFO.

CFOs of organizations with budgets between \$1.5 million and \$10 million (which we’ll call “small” here) tend to have responsibility for multiple areas, including accounting, real estate, technology, legal, and administration.

In contrast, CFOs of organizations with budgets over \$40 million (“large”) more often focus tightly on accounting and finance issues, including oversight of the organization’s investment strategy and endowment.

For organizations in the \$10 million to \$40 million budget range (“medium”), CFO positions can be similar to those at either large or small organizations, depending on the complexity of the organization’s programs and revenue sources. If a mid-sized organization offers highly diverse programs (such as multiple income-generating businesses or programs in multiple sites) or if its funding comes from several sources (government contracts and earned income, for example), then the CFO function would probably

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have a narrow focus like that at a large organization. The job of a CFO at a mid-sized organization with less complex funding (say, mainly gifts from individuals) or relatively simple programming would probably resemble the small-organization model<sup>1</sup>.

**Q: When and why do nonprofits create CFO positions?**

**A:** Nonprofits usually introduce the CFO position to accommodate one or more of the following needs:

Bringing a strategic, high-level perspective to the organization's finance and accounting needs.

Building the organization's capacity to manage its finances as it grows in size and/or complexity.

Reducing excessive executive director (ED) and/or chief operating officer (COO) workload in the areas of finance, administration, real estate, technology, or legal.

Balancing or supplementing the skills of the controller or other finance team members.

Partnering with the ED and COO to make decisions through a financial lens and educate staff on financial literacy.

The organization's reasons for creating the CFO position will influence how the role is defined and structured and what skills and qualities the organization will be seeking in candidates.

**Q: How can I tell if my organization needs a CFO?**

**A:** Before creating a CFO position, the organization should carefully think through whether it truly needs a CFO and what specific functions would fall under the CFO's authority. The vast majority of nonprofits are too small (budgets less than \$1.5 million) to afford or to need the equivalent of a CFO. In general, as organizations get larger and the complexity of their funding sources increases, the need to bring in a CFO becomes more apparent, although the people we interviewed said it is always difficult to pinpoint the precise "right time."

That said, Rick Aubry, President of Rubicon Programs, Inc., suggested, "Four things interact to determine at what point of growth you need a CFO: 1) the organization's size; 2) the number and different types of funding sources; 3) the activities that you engage in that require different types of financing; and 4) the strategic growth you anticipate that requires long-term financial planning and analysis. If you are in a more static phase, doing the same thing year in and year out, the CFO is less critical. If your programs

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<sup>1</sup> For more details, see "The Nonprofit Chief Financial Officer," [www.bridgespan.org](http://www.bridgespan.org).

are constantly evolving, if major assets' (such as buildings and/or enterprises) growth are a central part of your strategy, the skills and perspective of a CFO are critical."<sup>2</sup>

**Q: What are the differences between the roles and responsibilities of a controller and a CFO?**

**A:** Hiring organizations use a multitude of titles for the person who oversees their finance functions. The title used for the top financial position is often CFO in larger organizations and director of finance in small to medium ones. Some organizations may use the title controller. The choice of titles is often based on creating symmetry and synergy with the overall structure of an organization (i.e., all senior management positions are "director of xyz" vs. "chief xyz officer"). So it is often difficult to tell the scope of the job simply by the title.

Even though organizations may use the titles interchangeably, there are key differences between a controller and a CFO. A controller tends to be more focused on producing financial statements and managing the technical aspects of accounting and finance, such as accounts receivable and payable. The CFO is usually more strategic in nature: creating the budget for the organization; analyzing the financial statements; and interpreting the implications for the organization. Janice Bigelow, CFO of Communities In Schools, explained, "There's definitely a difference between the controller and CFO positions. The CFO role gets you a seat at the executive staff table where strategic decisions are being made. The controller role typically does not."

It is important to look carefully at the responsibilities of the position and assess how much high-level strategy is involved to determine whether the job is more of a CFO or a controller position. Another clue is whether the position reports directly to the ED (more likely a CFO) or to another senior manager (more typical of a controller).

**Q: What are the characteristics of the ideal nonprofit CFO?**

**A:** We asked a focus group of six nonprofit EDs to describe the ideal nonprofit CFO. They listed these traits (in no particular order):

Is knowledgeable, detailed, and precise.

Can educate the ED patiently about the organization's finances and their implications and keep the ED engaged in financial matters.

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<sup>2</sup> To read more about Rubicon Programs, Inc.'s experience hiring a CFO for the first time, see "The Impact of a CFO: Profile of Rubicon Programs, Inc.," [www.bridgespan.org](http://www.bridgespan.org)

Is able to educate program staff patiently about their program finances and to keep them accountable for financial performance.

Is passionate about the mission of the organization.

Is very nice but very strong; is not overly aggressive.

Performs other duties (e.g., human resources, technology, legal, and facilities) as needed.

Works well across variety of functions, programs, and people.

Understands nonprofits, budget models, and contracts in depth.

Builds strong relationships with the organization's funders.

Communicates in a transparent fashion.

Exercises good judgment in the midst of much ambiguity.

Has an existing network of support to draw upon for advice or even for pro bono or discounted services.

Is well-networked in function-specific associations.

Is a "doer" rather than someone who simply tells people what to do.

According to Hilda Polanco, Managing Director of Fiscal Management Associates, "In our experience, the ideal candidate has a CPA or MBA plus experience in the nonprofit world." She cautions, "However, it depends on the organization's funding mix, government contracts, other staff in the fiscal office, and the role of the board. A candidate without a CPA or MBA but with 10 to 15 years of experience in accounting and finance could be perfectly qualified."

Michael Park, Director of Finance and Administration at the Robin Hood Foundation, describes the ideal CFO: "The ideal CFO is someone who is an active partner to the ED, bringing a forward-looking and proactive stance to managing the agency's finances."

**Q: To whom should the CFO typically report?**

**A:** The vast majority of the CFOs we interviewed reported directly to the ED. A few reported to the COO and one to a senior vice president who had overall responsibility for the finance and accounting functions. In all cases but one, the CFOs were included in the organization's senior management team. CFOs—particularly in smaller organizations—may also report to the finance committee of the board of directors.

**Q: What is a typical nonprofit CFO compensation package?**

**A:** Compensation varies widely depending on the size, geographic location, and overall compensation structure of the organization, as well as on the sub-sector it serves and the particular responsibilities of the CFO.

Sources to research CFO compensation levels (most of which are available only for a fee or with a paid subscription) include the following:<sup>3</sup>

The Chronicle of Philanthropy publishes an annual survey of top executives' compensation at major charities and foundations.

The Nonprofit Times publishes an annual salary survey as well as analysis of the data and commentary on the trends in nonprofit salaries.

GuideStar's annual Nonprofit Compensation Report provides salary data based on IRS filings by more than 63,000 tax-exempt organizations. The survey information is based on over 108,600 individual positions included in the IRS filings.

GuideStar also posts the full IRS Form 990 filed by over 1.5 million nonprofits. An annual reporting return that certain federally tax-exempt organizations must file with the IRS, the 990 includes information on the organization's mission, programs, and finances and includes salaries for the highest paid positions within the organization.

Professionals for Nonprofits' salary survey is an online tool that allows users to search for salary ranges by sector, position type, title, and budget size.

Nonprofit support centers (nonprofit organizations that provide general technical assistance and resources to nonprofits in a geographic region) in large metropolitan areas often publish compensation surveys for the nonprofits in their regions.

## Hiring a CFO

**Q: Do candidates need a Certified Public Accountant (CPA) designation or a Master of Business Administration (MBA) degree to be a nonprofit CFO?**

**A:** Most of the technical assistance providers and funders in our sample described the ideal CFO as having both the CPA and the MBA—in addition to many years of relevant financial management experience. However, the need for a CPA or MBA depends on the size and complexity of the organization, the role of the board in fiscal management, and—perhaps most importantly—the skill set of the organization's existing financial staff. In organizations with a CPA as a controller and a strong accounting department, it is less important for the CFO to be a CPA. However, if there isn't a financial staff member (or highly involved board member) with a CPA, most of our interviewees said they thought it would be prudent for the CFO to be a CPA. In fact, of the CFOs we interviewed, the vast majority had MBA degrees and a quarter were CPAs. Most of those CPAs also held MBAs.

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<sup>3</sup> "Where can I find information on employee salaries and compensation in the nonprofit sector?"

Frequently Asked Questions, [www.foundationcenter.org](http://www.foundationcenter.org).

The CPA CFOs in our group reported that the rigorous work required to earn their CPAs gave them new insight into the finance function and better prepared them to respond to auditors' requests. Several noted that they had been able to save their organizations money in the audit process as a result of their CPA training.

The MBA-CFOs more often mentioned the importance of having a good base of general knowledge to bring into the CFO position, including strong financial and investment analysis skills. Several noted that their MBA training helped them have a more strategic perspective on their organizations.

Jeanne Bell, Associate Director of CompassPoint Nonprofit Services, provided a different perspective: "While some people argue that full accounting skills and experience are not necessary for a 'strategic' position like a CFO, I believe it is enormously helpful if not essential to have experience with bookkeeping in order to do financial statement analysis; to hire and supervise bookkeepers, accountants, and controllers effectively; and to make decisions about how to improve the way financial information is tracked and reported. I don't think one learns accounting in an MBA program, nor do I think CFOs necessarily need to be CPAs. An MBA-type degree is not a guarantee that someone has ever done true full double entry accounting."

**Q: Do candidates need nonprofit accounting experience to be a nonprofit CFO?**

**A:** Having nonprofit accounting experience, while not absolutely required, is certainly helpful in the nonprofit CFO role. Most of the CFOs we interviewed who came directly from the for-profit sector commented that one of the biggest challenges of transitioning into the nonprofit CFO job is "not knowing what you don't know." Interviewees suggested that at minimum, hiring a CFO with experience on a nonprofit board's finance committee is a good way to ensure the individual has a basic introduction to nonprofit accounting.

Most CFOs and technical assistance providers we interviewed advised that there are some CFO positions that will definitely require someone with nonprofit accounting experience. This is especially important in the case of an organization that is setting up its government tracking and financial reporting systems from scratch. While auditors and accountants are a valuable resource to CFOs and can teach them a lot of what they need to know, nothing can compare with hands-on experience in the case of a start-up.

**Q: Do candidates need government contract and grants management experience to be a nonprofit CFO?**

**A:** It depends. If the nonprofit relies on government funding streams, it probably needs a CFO familiar with both grant management and the A-133 audit process required by the federal Office of Management

and Budget. In fact, when we asked a focus group of eight nonprofit CFOs what advice they would give a for-profit CFO who was coming into a nonprofit that had enough revenue in government contracts to trigger an A-133 audit, they immediately shouted, “Don’t do it!” Several later qualified their responses, with one CFO saying, “There’s no way I’d recommend a CFO jump from a for-profit to a nonprofit with A-133 requirements unless the organization had the following pieces in place: a strong controller; a supportive board of directors; a good, reliable auditor; and timely reports.”

One CFO explained the group’s concerns about such a transition: “Moving to an organization with a large enough amount of government funding to trigger an A-133 audit is 10 times more difficult than moving from for-profit to nonprofit accounting and mistakes are expensive. You have to make sure that skill set is already within the organization (such as the controller) or the person brings that skill set with them. I don’t know about any coursework that can prepare you for that.”

**Q: What kind of for-profit experience in accounting and finance translates into a good candidate for a nonprofit CFO position?**

**A:** The CFOs with for-profit experience that we interviewed came from a variety of backgrounds, including money management, investment banking, private banking, consulting, and public accounting. The general consensus was that their experience with managing budgets, analyzing the return on investment of projects, and conducting audits served them well in the nonprofit environment.

Bruce Skyer, Chief Financial and Administrative Officer of Nonprofit Finance Fund, found his treasury experience at Altria to be directly applicable to his work with the community development finance institution<sup>4</sup>. Mike Dunn took his for-profit experience consolidating several family-owned businesses and applied it to his CFO role at Outward Bound when the organization was going through a geographic merger of the seven individual regional Outward Bound schools.<sup>5</sup>

**Q: How should our organization approach the interview process?**

**A:** The interview process is just one of five major steps involved with hiring for a position. Bridgestar’s Hiring Toolkit<sup>6</sup> provides information on each stage, including:

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<sup>4</sup> For more details, see “Bruce Skyer: Finding a Professional and Personal Fit at Nonprofit Finance Fund,” [www.bridgespan.org](http://www.bridgespan.org).

<sup>5</sup> For more details, see “Mike Dunn: Consolidating Financial Operations at Outward Bound,” [www.bridgespan.org](http://www.bridgespan.org).

<sup>6</sup> For more details, see Bridgestar’s “Hiring Toolkit: Navigating the Hiring Process,” [www.bridgespan.org](http://www.bridgespan.org).

1. Defining needs and the search process
2. Developing the candidate pool
3. Screening and interviewing candidates
4. Finalizing the choice
5. Managing the transition

It is important to ask CFO candidates the right questions in order to assess skills and overall “fit” with your organization.<sup>7</sup> For organizations with limited in-house financial skills, many technical assistance providers suggest enlisting a consultant or the organization’s auditor to assess candidates’ financial skills.

### Helping the CFO Transition Into the Organization

#### **Q: Is there an ideal time for the CFO to start working at our organization?**

**A:** While it may not always be possible, the CFOs in our focus group recommended that the new CFO be hired ahead of time and be trained by the outgoing CFO, ideally during audit time. That way, the new CFO can immediately go through an entire audit cycle. Said Sue Meehan, Director of Finance and Operations at Year Up, “I started right during Year Up’s audit and that was very helpful. I got thrown into the nitty-gritty of evaluating our processes and controls in detail and I got an upfront picture of our strengths and areas for improvements. If I had started at a different time it would have taken me longer to get fully up to speed. I got some really great training in those first few months.”

#### **Q: How can I help the CFO transition into the organization?**

**A:** Bridgestar’s Hiring Toolkit<sup>8</sup> provides resources on each stage of the hiring process, including the final stage of managing the transition. Some of our recommendations to make the transition as smooth as possible are:

Encourage the candidate to join any relevant professional organizations and, if possible, to attend any public events that your organization is sponsoring prior to the start date.

Make an announcement introducing the new CFO to the organization and the board before s/he starts.

If possible, name a mentor or ombudsman for the new CFO to go to for objective advice.

Provide clear expectations, including information on communication styles and ideal communication frequency.

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<sup>7</sup> For more specific information on interview questions to ask a CFO candidate, please see “Hiring a CFO: Interview Guide” and “Finding the Right CFO for Your Organization,” [www.bridgespan.org](http://www.bridgespan.org).

<sup>8</sup> For more details, see Bridgestar’s “Hiring Toolkit: Navigating the Hiring Process,” [www.bridgespan.org](http://www.bridgespan.org).



Provide clear information on the team the CFO will inherit, including strengths and weaknesses. Work together to develop three-, six-, and 12-month priorities.

Please see the toolkit for more information on how to prepare your new hire for success and how to smoothly integrate your new hire into the organization.

**Q: What should I be prepared for as I transition the new CFO into the organization?**

**A:** Almost all of the CFOs we interviewed said they found their jobs rewarding and fulfilling. At the same time, they described some significant challenges. These challenges clustered into four categories:<sup>9</sup>

**The rules of nonprofit finance.** Especially for CFOs who come from the for-profit sector, it can be tricky to understand how the nonprofit capital market operates.

**Resource constraints.** Nonprofit CFOs frequently face scarce resources, cash constraints, and a limited number of financial people on staff with formal training and experience in accounting and finance.

**Nonprofit culture.** 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 can be a culture shock.

**Technical skill development.** Bridger CFOs face challenges related to learning nonprofit accounting and government grant reporting while CFOs of small organizations sometimes struggle to master the many areas they are responsible for in addition to accounting and finance.

In addition, we heard in our interviews that bringing a new CFO into an organization, especially when it was a first-time CFO position, resulted in some turnover within the financial management staff. The organization should be prepared for changes in reporting and relational dynamics within the staff as well as the board of directors.

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<sup>9</sup> For more details, read “The Nonprofit Chief Financial Officer,” [www.bridgespan.org](http://www.bridgespan.org).