CFO Fitness Quiz: Are You Tough Enough for the Caring Sector?

Contemplating a switch to the nonprofit sector? Here are seven questions that can surface your readiness for the Olympic-level challenge of financial management in the social sector.

"If I'm a CFO coming from a for-profit into a nonprofit, am I overqualified?"
- A for-profit CFO

This question has been asked by more than a few chief financial officers (CFOs) and it can mean only one thing: the person asking it is unaware of the roles and responsibilities of the nonprofit CFO, and the qualifications necessary to be effective as one. For-profit CFOs have great skills to bring to nonprofit organizations, but they must expect to learn a lot on the job. In fact, the real question for CFOs considering a move is not, "Am I overqualified?" but "Am I qualified enough?"

To help you decide whether becoming a nonprofit CFO is right for you, ask yourself the questions in the following fitness quiz. The questions grew out of in-depth conversations and focus groups with 25 nonprofit CFOs and 15 executives from nonprofit organizations (including funders) that focus on the finance function, as well as the authors' collective experience in the nonprofit sector. Read on to assess if you're tough enough to do the job.

1. **Are you really good at doing puzzles?**
   Many seasoned for-profit CFOs are astonished to learn that Financial Accounting Standards Board (FASB) rules for nonprofit organizations compromise the matching principle: the standard for-profit practice of matching revenues with the expenses required to generate them—and thus waiting to recognize expenses on financial statements until the associated revenue is also recognized. Under FASB rules, nonprofits must treat all revenue the same, whether it is earned income, multi-year grants, capital contributions, or even equity-like contributions or "permanent capital" infusions.

   This means that a nonprofit theater company which receives a three-year, $1 million capital grant must recognize the entire $1 million as revenue in the year the funds are pledged, even if most of the dollars will not be received until subsequent years and the expenses will be incurred over several years. What's more, this capital grant will flow through the organization's statement of operations, obscuring the nature and performance of the operation and compromising transparency into the "equity" base. In a for-profit analog, this capital would flow directly to the balance sheet. This nonprofit accounting requirement not only creates confusion in its own right, but also makes it extremely difficult to assess the operating health (or lack thereof) of the organization. David Stolow, a three-time nonprofit CFO, explained, "You have to spend a lot of time in advance trying to figure out how to book things one way or another. It's a lot like doing a puzzle."

   The fact that the majority of funds nonprofits receive are restricted in their use further complicates the challenge of nonprofit accounting. According to FASB rules, restricted funds cannot be used for any purpose other than what the purchaser or donor prescribes. As a result, nonprofit CFOs have to become adept in what Stolow described as accounting in 3-D: "Whereas accounting in the for-profit world is two-dimensional—charge a travel expense to the marketing department—in the nonprofit world, it is three-dimensional—charge a travel expense to the marketing department, which is funded by the XYZ Foundation. In the for-profit world, when you get a dollar for a widget you can spend it on whatever you want. In the nonprofit world, you have to keep track of which incoming dollars can be spent on which things. Typical accounting software can't handle it and a lot of people struggle with it."

In addition, the restricted nature of nonprofit funds can easily create a situation in which the nonprofit is sitting on a lot of cash in the bank but is actually in a cash crisis. For example, the theater company may have $300,000 of its first-year capital grant sitting in the bank but struggle to make monthly payroll because the money is restricted to a future building project.

The successful nonprofit CFO must be able to piece together the disparate timeframes and sources for the organization's revenue, and explain how they work to the organization. For CFOs of nonprofits with significant government grants and contracts, this process is even more complicated. As Jane Fischberg, executive director of Rubicon Programs, Inc., pointed out: "One of the real challenges is juggling different foundation and government funding streams. Each has a unique set of strings attached and often has bizarre start and stop dates. Adding another layer of complexity, we, like most nonprofits, don't have the luxury of a single funding source to cover an entire program. We need the CFO to give us timely feedback about how we are doing, actual against budget, for each line item for each funding stream, as well as projections of how we should recalibrate our spending so we don't leave money on the table or run short by the end of a funding period."

2. **Are you comfortable managing a subsidy business and a triple bottom line?**
In "Good to Great and the Social Sectors," Jim Collins stated, "The whole purpose of the social sectors is to meet social objectives, human needs and national priorities that cannot be priced at a profit." Virtually every nonprofit has a structural deficit, defined as the gap between revenue from the core business of the nonprofit (tuition for teaching children, for example, or government contract revenue for making home visits to frail elderly, or sales of tickets for presenting a play) and total expenses. This gap is filled by revenue from a variety of traditional and non-traditional "subsidy businesses," the most common being fundraising. To be effective, the CFO must be able to articulate and quantify the costs and benefits of engaging in these various "subsidy businesses" for both board and staff.

The CFO must also be able to maintain a delicate and difficult balance between mission and money. More revenue isn't always a good thing. Increased program funding can actually compromise an organization's financial health, because "buyers" (funders and government) rarely pay the full cost of the services they purchase. Accordingly, great CFOs are the fulcrum for success, helping negotiate prices and contracts for maximum cost coverage and impact.

Growing revenues can create other problems. Consider the situation Brian Trelstad, chief investment officer and former CFO of Acumen Fund, described: "If we received incremental money to do something new, and the revenues were greater than the costs, one would imagine we would leap at the chance. But if adding the revenues means adding costs, and that means we will exceed our internal board-approved budget for expenses (or worse, external funders' requirements for program versus administrative cost ratios), we may be inclined not to do it."

As for the triple bottom line, in the for-profit sector, economic performance—increasing shareholder value—is typically paramount, with social and environmental impact playing a secondary role, if any role at all. CFOs are rewarded on the basis of their businesses' financial performance. By contrast, in the nonprofit world, the success of the organization, a specific program, or an individual is never measured solely on financial results. And, as noted earlier, the organization's financial results are not always clear. The social mission of the organization, whether to thwart environment degradation, improve the education system, deliver superior social services, or offer unique art exhibitions, drives the metrics of performance.

Measuring the social or environmental impact of a nonprofit is difficult, however. The challenge for the CFO is to translate financial information into performance data. As John Tarvin, interim president and former CFO of Jumpstart for Young Children, stated, "As CFO, much of your work is factual. 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. The translation the CFO needs to make is from the factual to the subjective."

3. **Do you have nerves of steel…and an imagination that can make cash elastic?**

Nonprofit CFOs must deal with significant cash constraints. In a study of 20 youth-serving organizations that experienced significant growth in recent years, the Bridgespan Group found that "among the 16 organizations that provided data [on their financial condition], the average operating reserve was four-and-a-half months. Eight organizations had two-month reserves or less. None had more than nine months of operating expenses on hand."

Being able to stretch cash is a key skill for the nonprofit CFO. Kristen Growney, former CFO of Rubicon Programs, Inc., explained, "At my prior for-profit, high-tech employer, we didn't spend a lot of time on cash flow. At Rubicon, cash flow was the big thing. It was more, 'What checks are we going to release this week? Did enough money come in to pay the rent?' Thirty percent of my controller's time was spent on cash flow."

Nonprofit CFOs must also be creative about solving problems. "You're going to have to do things in the nonprofit world without the budget you'd have in the for-profit world," emphasized one nonprofit CFO. Christy Lueders, senior vice president and CFO of the YMCA of Greater Seattle, advised, "You'll never have enough resources, never have enough staff, so you'll have to be resourceful and creative about how you attack things—which things you choose to get done and which things are left behind."

In addition, "Finding a way to say 'yes' is important to succeeding in the nonprofit CFO position," said

Stolow. "The caricature of a CFO is someone who says 'no' and stands up to the dreamers and directors and tells them why they can't do something in a language they can't quite understand. In the nonprofit world, the CFO needs to be someone who can help the leadership figure out how to say 'yes.'" And in the context of funding and cash constraints, saying "yes" may mean delaying a project or implementing a less aggressive expansion plan.

Still there are limits. The CFO may be the only person who fully understands the negative financial implications of popular program choices and how, eventually, they will come back to hurt the program. This can make it a very lonely job at times. Glenda Fishman, CFO of Facing History and Ourselves, commented, "In nonprofits you typically don't have peers you can turn to for financial advice, guidance, or support. You often have to find it outside of the organization."

4. **Are you able to tell the finance story in program terms, and the program story in finance terms?** People working in nonprofits are accustomed to understaffing, so they can do almost everything—answer the phone, keep the books, raise the money, report to funders…oh, and provide the after-school counseling (or other activities) that are core to the organization's mission. But although staff members typically have broad expertise, in many cases, especially in smaller organizations, the CFO is the only person on staff with any formal training in accounting or finance. As a result, the CFO needs to be able to communicate financial information to staff and board in program terms, and help staff understand the program story in financial terms.

   Rick Aubry, president of Rubicon Programs, Inc., described how Growney helped him, his board, and staff "separate out aspiration from reality through financial analysis and accelerate the right decision to close one of our enterprises. We were able to make more of a factual decision, and less of an emotional one, sorting out carefully the social value of the enterprise versus the cost. But more importantly, we were able to make this not as a one-off decision, but in the context of the larger organization. We can talk to each other about which programs to sustain and which ones to support in a way that everyone can understand." Patience, good will, and listening are required on both sides.

   "Many CFOs are not good enough at translation and teaching," said Jeanne Bell, associate director of CompassPoint Nonprofit Services. "They have an unrealistic expectation of people's financial literacy. Ultimately, analysis, communication, and strategy are what the CFO should bring to the organization." Jan Dahms, vice president of accounting and controls at Teach for America, agreed: "It's important to know what to ask at the right time of the right people. Within the nonprofit environment there is so much information stored in people's heads versus being able to rely on formalized policies, procedures, and processes. As CFO, you have to be able to talk to program and development people in a way that builds trust and confidence."

   Sometimes new CFOs view time-honored strategies for managing around and through awkward accounting rules, tight cash, and the absence of specialized staff as amateurish or wrong-headed, and they move quickly to make changes to tidy things up and "professionalize" the finance operation. The successful new CFO will listen well, speak softly, and learn the ways of the nonprofit finance jungle while treading carefully and lightly. These capabilities are even more important for someone entering a newly created CFO role. Bruce Skyer, chief financial and administrative officer of Nonprofit Finance Fund, recalled advice he received upon his transition from the for-profit sector: "Don't come in like a bull in a china shop, saying you know how to do everything right and they do everything wrong. Be very conscientious about how you come into an organization."

5. **Can you explain and address capital structure issues?**
While the mission of a nonprofit organization may be very clear, what is often not clear is its underlying business model. Very few small to mid-sized nonprofits—or their boards or funders—have formally identified their business models. Nor have they tied them in with capitalization plans for the long-term or, most importantly, understood how the capital structure and business model interact with mission and strategy.

For example, two performing arts organizations, a dance company and a theatre, may have similar missions: to present important works of the past and commission new works in the spirit of a particular choreographer or playwright. However, each has a fundamentally different underlying business: the dance company is in the business of deploying people (dancers) who represent a variable cost, whereas the theatre (with its fixed real estate assets) is primarily in the business of selling seats. As a result, the dance company and theatre face very different financing needs, and their capacity to take on risk at varying stages of growth is also quite different.

A CFO can make a major contribution to organization-wide understanding of the relationship between the mission of an organization, its business model, and the appropriate capital structure. But it takes the ability to operate both up in the sky and down in the trenches—or to insist on the outside expertise that will help the organization do this. Good data over several years is required to make the difficult passage from high-level, conceptual analysis to real-world decisions; but quite often these data are not readily available. Guess who will be elected to put them together, and develop the capacity to generate them on an ongoing basis?

6. **Are you good at consensus-building?**
A big part of building trust in nonprofit organizations involves building consensus with disparate staff, volunteers, and board members in order to move an agenda forward. CFOs who have moved to the nonprofit sector often comment on the challenge of adapting to the consensus-driven decision-making that characterizes many nonprofits. One CFO said, "In the for-profit world, I was very used to decision by dictate: 'Do xyz.' Here, someone will say, 'What do you (and you, and you) think about doing xyz?' As a result, there are a lot more meetings, which takes more time."

Consensus-building is often necessary to implement changes to current programs or to launch new ones. Because a fair amount of the work in nonprofits is accomplished through unpaid individuals, including volunteers and board members, these individuals need to be brought on board with the plan if the changes are going to take hold. 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.” The successful CFO will be patient and facilitate the consensus-building aspects of decision-making, while bringing the clarity of numbers and financial implications to the table.

7. **Do you have a big heart?**
   A big heart is an essential attribute of a successful nonprofit CFO. It is difficult to work at a mission-driven organization without being passionate about the mission. As a nonprofit CFO, part of being effective among colleagues and the wider nonprofit community is having a sincere passion for the mission, and respect for people on the front lines.

   “For someone coming from the for-profit sector, you really have to be in line with the values and mission of whatever organization you’re affiliating yourself with for the long haul,” said Phil Cunliffe, director of financial services at St. Anthony Foundation. “Working in a nonprofit generally involves a heavy workload at a lower pay scale,” Cunliffe explained. “There’s got to be something that keeps you inspired and motivated.” Dahms, who has worked for and consulted with numerous nonprofits since leaving the for-profit sector, observed that at times, “I’m still working 13 to 14 hours a day. You have to love what you do. Otherwise you’ll be constantly asking yourself, ‘Where is my bonus? And where are my stock options?’”

Quiz Results

If you can honestly say “yes” to all seven of these questions, congratulations! You are tough enough to be a nonprofit CFO.

This article was researched and written as a collaborative effort between Clara Miller, president and chief executive officer of the Nonprofit Finance Fund, and the Bridgestar knowledge team, with thanks to Melinda Tuan, Gail Fine, and Nan Stone.