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Every Charity's Guide to Building a Better Chief Financial Officer

By John Gillespie

Nonprofit organizations of all shapes and sizes entered uncharted territory during the recent economic downturn, and chief financial officers found themselves dealing with myriad issues that previously were out of their realm.

As the economy shows signs of recovery, nonprofit groups that hope to thrive in 2010 need to re-evaluate and expand the role of the CFO to ensure that he or she can weather future economic storms. In looking to the future, nonprofit organizations should consider the following tips.

Focus on recruiting new stars and retaining top talent. The chief financial officer is one of the top two or three critical positions on any nonprofit team. Because of this, nonprofit organizations are raising the bar when it comes to hiring CFO's and requiring that they posses more sophisticated skills.

It is no longer enough for CFO's to be just number crunchers. Today's nonprofit organizations need individuals who can analyze the data as well as forecast. They also want chief financial officers who fit their organization's culture and participate in strategic planning and decisions. To put it simply, these individuals need to be financial partners who bridge the gaps among operational functions. The nonprofit CFO of the future needs excellent communication and other "soft" skills in addition to a high level of technical competence.

Because the bar has been raised in finding a good fit, many nonprofit groups have adopted 90-day trial periods for their new CFO's—what I call the "try me, fly me" model—to ensure the individual is a cultural fit for the organization. Three months often provides a good indication about whether a new hire will work out long-term and enables a nonprofit employer to easily change course if necessary.

Nonprofit groups that are pleased with their current CFO's should consider ways to motivate and reward them to encourage them to stay. As the economy strengthens, other nonprofit organizations are likely to bolster their financial team by recruiting stars away from successful organizations. It is always more cost-effective to retain a good employee than to hire someone new.

Seek out new ways to earn money and find new sources of donations. Unfortunately, the recession caused many sources of donations to cut back or disappear completely. Charities that focused on a combination of cost cutting and building revenue streams in 2009 were more successful than those that simply focused on one or the other.

While traditionally the chief financial officer has taken a more passive role, just reporting on a group's finances, CFO's should now play a more proactive role in setting the strategic direction of the organization.

In this tough economic environment, nonprofit leaders will be turning to their CFO's for creative solutions when it comes to generating income and finding new sources of revenue.

For instance, charities should look for a CFO who can work with the organization's fund raisers to identify potential donors and predict how much they might be able to give.

Chief financial officers need to update the development staff monthly on revenue forecasts. In addition, organizations have grown too comfortable with what they consider "tried and true" revenue models, such as the annual gala. Instead, nonprofit groups need to consider expanding their pool of supporters by attracting and rewarding donors at a variety of levels and driving higher donor lifetime value versus focusing on the short term.

Evaluate programs and demand accountability. Today's CFO's will need to align costs with revenues to help leaders examine the net impact of each program as well as its overall importance to the nonprofit group's mission. They will need to take the lead in assessing the performance of their organization's programs to determine which ones should be expanded, maintained, or dropped: Gone are the days when a charity or foundation can afford to keep a low-performing pet project. Nonprofit organizations will need to start making decisions with the bottom line in mind.

For example, forward-thinking nonprofit CFO's are developing and using new measurement tools that track progress toward the organization's mission as well as institute staff accountability. These benchmarks help focus employee efforts; provide an objective, efficient way to report on performance results to the executive director, board, or donors; and are useful for making strategic decisions.

Adopt a holistic approach to fiscal management. Well-run charities operate like well-run businesses. The strategic CFO will integrate financial accountability into all aspects of the organization. Donors expect that, and so do boards.

For instance, most nonprofit groups used temporary relief tactics in 2009—such as cutting costs, reducing and reorganizing the staff, freezing salaries, and using more volunteers—as a way to survive the economic downturn. However, the scope of the recent recession may not allow business to return to pre-recession levels. Long term, an organization's expenses must be aligned with revenue, and the expense structure must be more fluid than fixed so the organization can expand or shrink as needed. In the short term, the time for incremental cost savings yielding big results may be over. Entire programs may need to be cut if they continue to bleed cash.

Nonprofit organizations that will thrive in the future will shift to entrepreneurial business models focused on more efficient growth, new revenue streams, and better forecasting. Savvy nonprofit groups are adopting growth strategies traditionally reserved for the for-profit world, such as mergers and acquisitions or strategic alliances and partnerships, to gain shared resources and other efficiencies.

In addition, nonprofit leaders will lean on their chief financial officers to move from simply trimming costs to adopting long-term strategies that can lower them for good, exploiting technology to make their operations more efficient, hiring contractors or services rather than permanent employees, and more.

Gone are the days of putting together budgets that we only hope are accurate. Executive directors and boards will rely on their financial teams now more than ever to offer realistic and achievable financial projections. While many nonprofit organizations focused on the expense side in previous years, successful groups in 2010 will align expenses with revenue for a holistic view of finances.

As nonprofit executive directors look forward to 2010 and beyond, they should recognize that the role of the chief financial officer needs to evolve to meet the changing times. CFO's will play a key and necessary role in helping organizations thrive.

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