Don't Be a CF-No: How Nonprofit CFOs Can Collaborate with Senior Leadership

By Laurie De Armond, CPA and Adam Cole, CPA

In a recent insight, we explored the concept of "Nonprofit Heart, Business Mindset" — which, put simply, is the belief that nonprofit organizations must pursue business-oriented management practices to thrive long-term, without losing sight of their core mission. Nonprofit chief financial officers (CFO) are uniquely positioned to embody this philosophy and bring it to life.

As you've likely heard before, there's a misconception that the role of a nonprofit CFO is somehow less intense than the equivalent in the corporate world. We know that couldn't be further from the truth — nonprofit CFOs have the unique challenge of ensuring financial well-being, while simultaneously making sure the organization is advancing its mission.

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Sometimes, it's not just those outside the nonprofit sector that view things differently from nonprofit CFOs; it's often their colleagues and peers who have differing opinions and conflicting perspectives. We have observed this firsthand with clients throughout the years.

Here are the four key areas where we see a divergence in opinions between CFOs and other executives in the nonprofit sector:

- **Views on Financial Challenges:** Nonprofit CFOs and other leaders often express differing sentiments around liquidity. The majority of finance chiefs we work with characterized it as a high or moderate challenge. But among other executives, fewer felt this way. We are firmly in the finance chiefs' corner and believe liquidity can be the one key performance indicator that makes or breaks a nonprofit's success. Generally, establishing at least six months of operating reserves is a prudent target for the sector. In our experience, about half of organizations surpass that six-month target, while the other half fall short. Unfortunately, some nonprofits have no operating reserves at all, meaning they are incredibly vulnerable if there are funding interruptions and/or reductions.
- **Views on Overhead:** Rising overhead costs is another area of greater concern for nonprofit finance chiefs, compared to their other executive colleagues. Given these differing perceptions, now may be the time for CFOs to educate other stakeholders about the importance of communicating mission outcomes and impact to outside stakeholders, particularly donors. CFOs understand all too well the risks of the "starvation cycle" — a situation in which an organization prioritizes high programmatic spending over necessary infrastructure like new technology, employee training and fundraising expenses. CFOs understand that spending on infrastructure is necessary, but outside stakeholders and donors may not.
- **Views on Regulation:** CFOs are often also much more attuned to the difficulty of dealing with regulatory and legislative changes. While it's likely that CFOs could bear the brunt of new regulatory and legislative changes, these issues will ultimately impact the entire organization's future strategy:
    - When federal tax reform passed more than a year ago, many nonprofits were left wondering how to handle changes like the new excise tax on executive compensation, taxes on fringe benefits and personal tax changes that impact charitable giving.

    - New regulations around how nonprofits recognize revenue mean organizations need to review and assess all their revenue streams to determine how to record them in annual financial statements.
- **Views on Cybersecurity:** CFOs are often somewhat less concerned about cybersecurity than other nonprofit executives. While IT is often not under nonprofit CFOs' immediate purview, the security of financial technology systems — including donor databases — is a crucial element of a nonprofit's long-term sustainability, meaning more and more CFOs will get involved in cybersecurity strategy as they understand the risks. Alternatively, when information technology does fall under CFOs' responsibilities, they are often more secure in the risk mitigation tactics they are taking to protect the organization.

It's clear from our experience in working with our clients that there is often a mismatch between the priorities of CFOs and other senior leaders, but it's critical they work together to make decisions and develop strategies that balance the organization's mission with its financial health. As the financial leader, the CFO has to make a convincing business case. Sometimes that means employing a little — or a lot — of style, to go along with substance.

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For example, our co-presenter in our January webinar, Susan Pikitch, CFO at the United States Golf Association, said her biggest advice to nonprofit CFOs is to view their role as part-educator, part-fact-bearer. Like all other relationships, it's all about cultivating a creative business partnership where ultimately your guidance is a value-add. She cautioned against being viewed as a "CF-No." Those perceived to be CF-Nos can be thought of as roadblocks and left out of important conversations to the detriment of their organization. Unfortunately, that's how some brilliant CFOs get cut out of the decision-making process.

On a tactical level, CFOs should go beyond presenting facts and figures, and tell their organization's financial story using visuals to communicate insights. It's important to address the audience as clearly and simply as possible, being aware that not everyone has the same understanding of finance. The most important best practice to achieving that goal is ensuring constant, open communication between the CFO and other stakeholders. The most effective nonprofit CFOs will look past the differences with other key leaders. By prioritizing working together, they can ensure their organizations maintain a nonprofit heart *and* business mindset, and set them up for long-term success.

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