The Mission Driven CFO

The unique challenges faced by CFOs and finance functions of non-profit enterprises

Red kettles and ringing bells during the holidays. Pink ribbons. Mobile donation trucks. A simple red cross. These iconic images conjure up universal associations with specific organizations offering a range of social services to meet human needs. Beyond the powerful branding lies a mission-driven enterprise whose infrastructure is not wholly unlike that of a profit-driven corporation; and yet the finance function, by design, must often adopt an unconventional role.

In an effort to maximize finite resources, not-for-profit organizations rely on the goodwill of volunteers, and corporate professionals often volunteer by serving as board members. Corporate executives at every level, ranging from managers to the C-suite, serve in business advisory capacities, bringing to bear their own business acumen, but in order to better serve a mission-driven organization, it becomes essential to recognize the challenges unique to non-profit enterprises.

The mission-driven environment

A not-for-profit organization is defined as any entity with a charter to support a specific cause or mission. Classified as neither government nor business entities, these organizations are often established as not-for-profits and enjoy tax-exempt status, but must retain their earnings for self-preservation and execution of the organization's mission.

Despite the diverse environment and complex tax code, a few types of organizations dominate the non-profit landscape. The most financially powerful tax-exempt entities, charities and foundations, comprise more than 63% of all U.S. non-profits and employ more than 7% of the nation's workforce.[1] To gain a sense of scale and impact, in 2010, this category of mission-driven organizations reported $1.41 trillion in revenue and $1.40 trillion in total expenses. Private foundations distributed $45.7 billion[2] in funding in 2010.

The numbers are hardly insignificant, nor are the problems they aim to solve. Last year reported a 41% spike in demand for services.[3] As a result, these organizations face pressure to grow quickly and make strategic decisions about how to optimize limited resources in order to create impact. The case for elevating the mission-driven CFO's role has never been stronger.

Across many mission-driven organizations, board members and various stakeholders see this as a "numbers question," fit to be answered by a traditional finance function. In these organizations, CFOs have the opportunity to expand the standard finance role as the steward of an organization's resources. Leading CFOs understand the myriad of opportunities to provide the analytical power, processes, and governance required to best support the mission.

The mission-driven CFO

Maximize shareholder value. The traditional corporate battle cry, this charge defines the CFO role in most organizations. Shareholder value and related metrics such as Return on Capital and Earnings per Share provide the essential framework within which CFOs make decisions, prioritize projects, and measure performance. Shareholder value gives the CFO a powerful seat at the table to drive an organization's strategic direction. But what is a CFO to do if the traditional shareholder value framework doesn't exist? What if instead, an organization's success is measured by its ability to improve community welfare? Or increase access to education for low-income families? Or provide disaster relief? Or improve access to healthcare in developing countries?

For such mission-driven organizations, the value equation appears quite different. Mission trumps share price, and investment returns come in the form of societal welfare, not dollars. Because these organizations are rarely optimized for financial outcomes, to earn a seat at the table, mission-driven CFOs need an expanded vocabulary and highly strategic view on value. These CFOs must instill practical, analytical, and sustainable approaches

1 Broad Source Organization, 2011.
2 National Center for Charitable Statistics, 2011.
3 Nonprofit Finance Fund — 2011 State of the Sector Survey.

to programmatic investment decision-making, achieving powerful discipline for an organization to leverage in order to fulfill its mission. He or she must also partner in the allocation of resources which align impact to mission.

Notable challenges for mission-driven CFOs

Unlike the commercial sector, where organizations typically share an overarching goal of creating value or generating returns on investments, mission-driven organizations exist within a distinct environment where financial returns are not expected, or even allowed in some cases.

For mission-driven CFOs, this lack of anticipated financial return can create a fundamental shift in the ideal role for finance within the organization and present unique strategic challenges for the CFO to address. Common strategic challenges include:

- **Sources of funding are not profit-seeking, but impact-seeking.** Unlike commercial enterprises, funding providers (e.g., donors, endowments, etc.) do not seek a financial return on their investment. The translation for CFOs is that performance improvement or financial discipline does not necessarily yield increased investment or cash flow. Yet high performance and financial discipline are necessary to ensure mission impact in the near-term and sustainability in the long-term. How can CFOs play a larger role in incentivizing a performance culture and instilling financial discipline when outside funders do not always demand it?
- **Few objective measures exist for assessing the charitable impact of a dollar spent.** In a corporation, the office of the CFO owns the "feedback loops" which measure the performance of a project, inform management about whether it is a success or failure, and help the organization learn how to improve in the future. In a non-profit, the measures of success are often non-financial and detailed data rarely exists, creating challenges for the CFO to facilitate organizational learning about which decisions and actions generate the optimal outcomes. How can the CFO introduce concrete measures of performance and build organizational commitment to these measures?
- **Attracting and retaining top-flight finance talent is more difficult.** Earning a seat at the strategy table requires finance staff to build a skill set beyond the traditional, transactional focus of most non-profit finance teams. For non-profit CFOs, this means competing with corporations and other for-profit enterprises for talent — often a daunting and expensive prospect. Of course, strategic finance professionals often command higher compensation than the average compensation for finance professionals, but there are deeper dynamics at play as well. In the organizational culture of many non-profits, the prestige and satisfaction of doing charitable work accrue primarily to programmatic staff, not the business support staff. How can the CFO craft a compelling brand for finance which attracts and retains top-flight, strategic finance talent?

Collectively, these challenges serve to undermine the CFO's strategic influence and create ambiguity around the role that finance ought to play to support the mission-driven organization. Unfortunately, the consequences for these organizations can be severe.

Implications for mission-driven organizations

When mission-driven CFOs see their roles and influence diminished, a number of negative organizational consequences tend to follow:

- **Misinformed decision-making:** The financial implications of a decision are not considered and the organization either lacks the funds to execute or sustain its programs;
- **Missed opportunities for additional funding:** If an organization is unable to measure the impact of its mission, donors may choose to contribute elsewhere;
- **Weakened accountability and stewardship:** Lack of visibility into the financial implications of program or initiative execution can lead to program termination due to insufficient funds;
- **Stagnant operational performance:** An organization may struggle to expand the reach of its impact if funding is not optimized and finance is not integrated with its overall strategy;

- **Emergence of self-reinforcing talent gaps:** If finance's role is diminished, so is its ability to attract and retain strategic finance talent. If finance is unable to attract and retain talent, its role is further reduced. This self-reinforcing process can magnify finance's challenges.

The role of finance in informing strategic decision-making and execution must be elevated in order to avoid such outcomes. The road to the strategy table can be long and winding, but it starts by returning to the basics.

Moving forward by going back to the basics

Defining the role of the CFO within a mission-driven organization is essential to addressing some of the key strategic challenges these organizations face. However, identifying these roles is as much an art as it is a systematic process. To begin the process, consider the following questions:

- *What is the core purpose of the CFO organization?* — Without a core purpose of maximizing shareholder value, CFOs of mission-driven organizations are often left questioning their identity — a void that can result in unclear roles and responsibilities. To address this void, rely on the organization's mission for direction. Establish a core purpose that supports the organization's mission — here stakeholder involvement and perspective should be heavily solicited.
- ***What enabling attributes and core competencies should the CFO organization possess?*** — Next pinpoint differentiators in finance's ability to perform specific tasks. What are capabilities and competencies of finance that provide a comparative advantage and add value to other parts of the organization? Common finance attributes include business process experience, objectivity, analytical skills, access to financial data, and cross-organizational perspective. All things considered, the CFO will need to make a case for why finance is uniquely qualified to perform activities more effectively or efficiently than others in the organization; these attributes and competencies are often strong forms of support.
- ***What roles does the CFO play to support the organization's mission?*** — Once the core purpose of the CFO has been established, then comes the pivotal step in the role-defining process: to understand how he or she can provide more value-add to the organization. In addition to fulfilling fundamental bookkeeping and financial compliance requirements, the CFO must identify ways in which he or she can best support the organization's daily operations using an organically produced core purpose as a guide and the enabling attributes and competencies as rationale. For example, organizations often look to finance to provide insight into historical data and apply analytical rigor to improve decision-making. However, in mission-driven organizations — where decisions are not exclusively based on a single quantitative metric such as ROI — the value in such a service becomes dubious, leaving the CFO to redefine finance's value-add.

Pondering these questions can keep CFOs awake at night, but they need not. The entire organization can help close the gap and plan a path forward.

The strategy roadmap

In order to elevate the CFO role in a mission-driven organization, one may consider an effective approach to refine the strategy, create, document, and communicate a clear vision and roadmap. Define finance's core purpose in supporting the organization, then identify and crystallize the function's unique competencies and attributes. Drill into the specific roles that finance will play through the services it delivers. The final element is to identify the discrete steps that define the path forward for finance to achieve its vision.

When it comes to crafting the vision and defining the roadmap for a mission-driven organization, certainly one size doesn't fit all. However, CFOs have historically achieved success by adhering to a few core principles, which include:

- **Make it a priority.** Involve all key finance leaders. Shift their current workload in order to ensure that these professionals can fully engage in the vision and roadmap development. Provide a clear plan and timeline for how the vision and roadmap will develop, establishing guidelines for expectations.

How others did it

Mission-driven CFO A

Meet Mary, the newly appointed CFO of a large non-profit whose mission is to bring volunteers and resources together to support their community's most pressing issues. When her predecessor retired after serving as CFO for two decades, the board of directors — hoping to further maximize the impact of every dollar donated — decided to consolidate the CFO and COO positions. As COO before the reorganization, Mary ran a lean operation and worked to minimize costs so the board assumed a seamless transition.

While Mary clearly understood finance's traditional role in maintaining the books and records, she knew the view from the CFO's seat would be more complicated. Historically, the organization met all statutory reporting requirements, external audits went well, and functions such as AP and payroll seemed to be running smoothly. The organization rarely changed its strategic priorities, and involvement in strategic decision-making had been limited. Mary quickly pinpointed a need to leverage her newfound position within finance to uncover methods to further decrease costs and make the organization more efficient.

Given that Mary recognized the limited opportunity to further maximize efficiency outside of finance, her first act as CFO was to dig deeper into the operations of finance. A review of industry leading practices in a trade publication showed Mary that the finance function she inherited was well behind the curve when it came to routine tasks such as pulling reports, T&E processing, and executing the close process. Fortunately, Mary identified a few "quick wins" through process changes and clarification of roles and responsibilities within the finance function. Long-term, Mary plans significant enhancements to the financial systems. She is also considering a change to the operating model to capitalize on outsourcing opportunities in order to further reduce costs. Collectively, these modifications illustrate how finance can play a key role in keeping an organization's operating costs down, the trademark of successful mission-driven enterprises.

- **Bring the organization along for the journey.** Identify stakeholders in other areas of the organization who should have input into the vision and roadmap for finance. Interview these practitioners, whiteboard ideas together, and dialogue frequently throughout the process in order to keep them informed of progress and outcomes. It is essential to foster advocates outside of finance who will champion finance's vision across the organization.
- **Create ownership and accountability.** Ensure that finance leaders own the actions and deliverables in the roadmap, and hold them accountable for delivering results. Conduct regular touch-points to assess where the finance team is vis-à-vis the milestones set forth in the roadmap.

To elevate the role of finance in mission-driven organizations is a tall order, but by going back to the basics and developing a clear vision and roadmap, CFOs can begin to position their teams to contribute where it matters most — to build an impactful, sustainable mission-driven organization.

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