

# THE **NEW** NONPROFIT CFO

No longer are nonprofit CFOs simply bookkeepers. Today they need a host of business-related skills to navigate ever larger and more complicated organizations.



### **The problem:**

*Nonprofits are becoming more complex and sophisticated financial and business organizations.*

### **Why it matters:**

*Donors and partners are increasingly basing their giving on measurable results.*

### **The solution:**

*Develop CFOs with a strategic business mind set that can align purpose and financial goals.*

After extensive travel abroad during the 1960s, David Paton returned to the United States with a nagging concern. As an ophthalmologist, he noticed that no one in the developing world was doing anything about offering proper eye and medical care to reduce widespread blindness. The son of the founder of the world's first eye bank, Paton followed in his father's philanthropic footsteps, refashioning an old DC-8 airplane into a traveling international eye-care teaching hospital.

From that first plane grew Orbis International, a nonprofit organization dedicated to ridding the developing world of avoidable blindness. Globally, 253 million people are blind or have visual impairment, and that figure is projected to triple by 2050. Last year Orbis provided critical eye-care services in the form of training, medicine, exams, and surgeries to people in 27 developing countries around the world.



Financially, the organization has grown from humble beginnings into a multimillion-dollar operation. In 2018, it generated \$246.7 million in revenue and donations and finished the year with \$61.7 million in net assets. Orbis is now sizable enough that it is required to provide employees a benefits and retirement plan, and is subjected to an annual audit instead of just filing a tax return.

“We are transitioning from acting like a small nonprofit organization into an enduring enterprise,” says Orbis CEO John “Bob” Ranck.

To be sure, nonprofits in general are becoming more sophisticated. The purpose movement has thrust social-impact causes into the spotlight, raising the stakes for all involved. Competition for funding is fierce, accounting regulations continue to change, donors are exercising more controls over how their funding is used, and there are more public and corporate partners than ever before.

The more sophisticated operating environment requires a new kind of nonprofit CFO. Divina Gamble, a senior client partner and co-leader of Korn Ferry’s Nonprofit practice, says over the last five years she’s seen a significant increase in the demand from nonprofit organizations for more strategic chief financial officers. “Organizations have a greater need for more commercially minded financial leadership,” she says.

In addition to providing strong controls, reporting, and regulatory oversight, today’s nonprofit CFOs need to be adept at financial planning and investment analysis. Most importantly, more and more they are being asked to serve as

a key business partner to the CEO and a strategic advisor to the board and organization as a whole. Such new needs change the collaboration between the CFO and other parts of the organization, and affect the way financial information is prepared and presented.

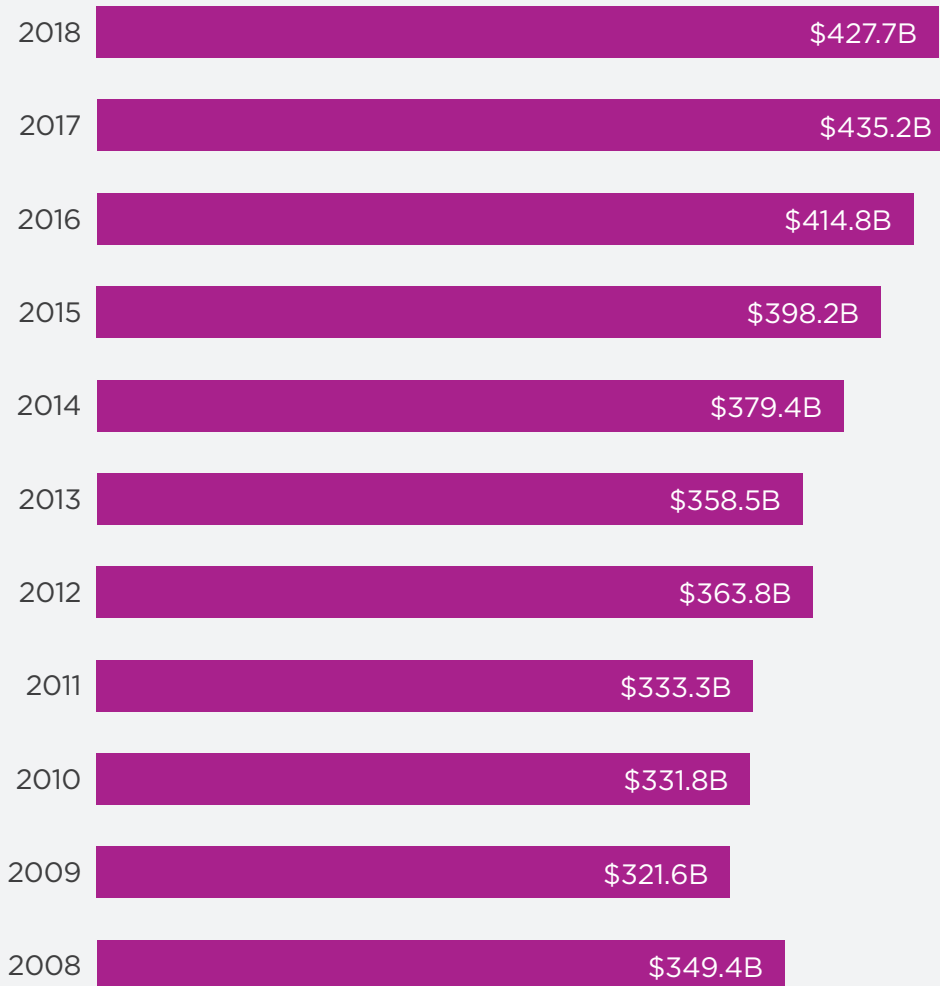
That, in turn, changes the skill sets required of nonprofit CFOs. For instance, Gamble says that communication and presentation skills are just as important today as financial acumen. “Nonprofit CFOs need to be able to talk to the board and partners not just about the mission but also about business strategy,” she says.

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## A Decade of Giving

*In 2018, charitable giving in the U.S. declined for the first time in five years, in part because of tax-law changes. Here, gifts from corporations, foundations, bequests, and individual donors over the previous decade.*



Source: Giving USA and The Chronicle of Philanthropy





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Historically, nonprofit CFOs fell into three categories based on the limited scope of responsibilities required by their firms. There was the accountant, or bookkeeper, CFO, whose role basically amounted to keeping track of where the money went. There was the financial planning and analysis CFO, who managed budgeting and future funding needs. And there was the fundraising CFO, whose primary role was to generate donations. Rarely did a nonprofit CFO candidate possess all three skills in equal measure.

Today, however, nonprofit CFOs need all of those qualities and more. Kate Shattuck, a senior client partner and co-leader of Korn Ferry's Impact Investing practice, says nonprofit CFO candidates are expected to demonstrate prior experience helping an organization strategically plan for and invest in future growth, which includes developing new products and services. At the same time, they must demonstrate an understanding of the organization's donation cycle, the differences between restricted and unrestricted and other forms of donations, and the nuances of public-private partnerships, among other responsibilities.

While in the past the minimal mandates of the nonprofit CFO role limited the appeal of the position, the new challenges and prominence it is gaining are attracting a wider pool of candidates. From millennials who want to align work with purpose to wealthy corporate executives looking to give back to older CFOs not yet ready to retire, more and more CFO candidates are expressing interest in the nonprofit world.

"CFOs can engage in a real range of activities in a nonprofit organization, and their work can often be broader and more demanding than with the average for-profit company," says Shattuck.

One example: the Low Income Investment Fund (LIIF), a national nonprofit community-development financial institution that acts as an intermediary between low-income communities and the capital markets, providing financing to everything from affordable housing to child care to healthcare and education. It has invested \$2.5 billion and helped access an additional \$12.5 billion for projects, helping create 160,000 jobs, 78,000 affordable housing units, and school slots for 98,000 K-12 students, among other initiatives.



## Five Talent Trends for Nonprofit CFOs

As nonprofits expand in size, scale, and sophistication, their CEOs, boards, and donors expect CFOs to be more than just bookkeepers. Among the skill sets required are:

### **Commercial Mind-Set:**

As more money comes in from more sources, CFOs need the ability to diversify balance sheets to become ongoing businesses.

### **Strategic Acumen:**

Boards and donors want CFOs with demonstrated experience planning for and investing in growth, including new products and services.

### **Relationship Building:**

Nonprofits can't achieve their missions on their own. CFOs must break out of their silos and work across functions internally and with a broad array of external partners.

### **Communication Skills:**

Given the diversity of backgrounds inherent in nonprofit organizations, as well as the new demands by donors for measurable results, it is increasingly important for CFOs to have communication and presentation skills.

### **Mission Alignment:**

With purpose moving to the forefront of giving, CFOs are expected to be cultural ambassadors for the organization during fundraising and other business-related activities.

**Today's nonprofit CFO "needs to have an EQ at least equal to their IQ."**



The scope of programs means LIIF engages in a wide range of financing activities that require partnering with a wide range of funding sources. JPMorgan Chase, the Robert Wood Johnson Foundation, the Metropolitan Transportation Commission, the Office of the State Superintendent of Education (Washington, DC), PIMCO, and the U.S. Department of the Treasury are among LIIF's partners.

LIIF chief executive officer Daniel A. Nissenbaum says that on any given day, the nonprofit's CFO could be juggling managing and allocating federal tax credits, raising off-balance-sheet loan funds, or managing contracts with municipal governments. "We have a range of funders, each of whom are involved in a specific activity in a specific place with a specific set of reporting obligations," he says.

Much of philanthropic giving in the past came without requirements on how it was to be used—known as an unrestricted donation. Today, however, most donations—called restricted donations—are earmarked for a predetermined use and have reporting and performance benchmarks to show that they were used for that purpose. "Donors are focusing on data and metrics to see the results of their funding, and the CFO is the primary point of contact for pulling all of that information together," says Shattuck.

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The good news is that the increasing complexity of financial activities at nonprofit organizations is helping attract dynamic CFOs who want to be challenged. The bad news is that while they have the desire, they often have little idea what they are actually getting into.

Most CFOs transitioning to the nonprofit world understand that they will make less money. They accept that and are willing to trade compensation for purpose. What they fail to fully grasp, says Barry Bregman, a senior client partner in Korn Ferry's Global Financial Officers practice, is the vast cultural differences



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between nonprofit and for-profit organizations. Bregman says it goes beyond a slower pace or valuing mission over money: “One of the biggest shocks to the system is the lack of resources at many nonprofits.” He points to old technology systems as an example, such as one nonprofit he knows of that only began using email in 2018. “You have to screen for and coach them to adapt to the transition,” says Bregman.

There’s a saying in the nonprofit world, says LIIF’s Nissenbaum, that more organizations die of indigestion than starvation. Competing opportunities and a lack of resources can become overwhelming, and the CFO needs to be a strategic decision maker and bring discipline and judgment to the organization.

One way to avoid getting overwhelmed is to build strong relationships internally and externally, which isn’t a core skill for traditional CFOs. Nonprofits are built on collaboration and creating social equity, whereas success in the private sector doesn’t necessarily have to involve either.

Together, these trends are driving a need for collaborative CFOs. “They need to have the financial acumen to strategize what we should do and the communication skills to explain what we can’t do,” says Orbis’s Ranck. Put another way, given all the stakeholders involved in those decisions, Ranck says today’s nonprofit CFO “needs to have an EQ at least equal to their IQ.”

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