Stanford SOCIAL INNOVATION Review
Informing and inspiring leaders of social change

Sectors

Building Financially Resilient Nonprofits: Lessons From the Field

"Resilience" is a favorite buzzword these days, but what does it really mean, and how can grantmakers and nonprofits take practical steps toward achieving it?

By Rebecca Coker, Neela Pal & Miguel M. Salinas | Nov. 16, 2018

Nonprofit executive directors engage in peer coaching and consultative support around organizational change. (Photo by Rebecca Coker)

(https://ssir.org/images/blog/nonprofit-ED-peer-group-592x333.jpg)

It's been a decade since the "nonprofit starvation cycle"—the downward spiral of unrealistic funder expectations that ultimately leads to underfunded grantees and continued funder misperceptions—gained notoriety (https://ssir.org/articles/entry/the_nonprofit_starvation_cycle) . Yet, despite growing awareness in the sector, some organizations continue to have a reactive and stressful relationship with their financial health and performance. The organizational symptoms are all too familiar: conflating finance with bookkeeping, managing year to year without a multiyear plan, and underinvesting in operations, to name a few.

The David and Lucile Packard Foundation's Local Grantmaking Program has seen a consistent trend of financial instability among some of its grantees. In a 2018 survey, "long-term financial stability" was the foremost issue among the 112 grantees included, with 61 percent listing it as a top concern, and many organizations reporting low confidence in their ability to steer their organizations to a place of fiscal strength.

This data led the foundation to seek insight from national capacity builder Fiscal Management Associates, LLC (https://fmaonline.net/) (FMA). Together, we built a multiyear partnership to provide comprehensive support for 10 grantees, creating a hands-on learning experience for organizations that had withstood the test of time despite limited resources. The average organizational age was 50 years, with budget sizes south of five million.

Despite growing awareness in the sector, some organizations continue to have a reactive and stressful relationship with their financial health and performance.

The leaders of these 10 organizations convened over a two-year period for a series of workshops on foundational financial management topics. Each committed to an action plan that translated their vision for change into a series of achievable projects. Executive directors received coaching and attended bimonthly peer-group sessions to dive deeper into sticky topics like risk management, revenue diversification, and staffing.

Ultimately, the cohort was an experiment to see what “financial resilience” means for community organizations. Three practices emerged as vital: Think proactively about multiple years of financial performance by planning beyond one year, energize discussions around finance through shared financial ownership and visual dashboards, and codify financial health by formalizing operating reserves.

1. Think Beyond the Next Year

Strategic planning has proliferated in the nonprofit sector over the past decade. Despite debates over its value in rapidly changing times (https://ssir.org/articles/entry/the_strategic_plan_is_dead._long_live_strategy) , an up-to-date strategic plan remains a marker of a mature, healthy organization.

However, organizations often skip the step of converting a lofty strategic plan into an operational (https://fmaonline.net/multi-year-financial-model-tool/) one (https://fmaonline.net/multi-year-financial-model-tool/) that projects resources across multiple years. Many organizational events—including multiyear grants, hiring decisions, and pilot programs—have a financial impact over time. Given this reality, projecting a budget over multiple years gives an organization much-needed visibility into its financial future.

Organizations often skip the step of converting a lofty strategic plan into an operational one.

Take the Arts Council of Santa Cruz County, which has fueled the region's artistic ecosystem since 1979. Michelle Williams, the organization's executive director, initially resisted the idea of a multiyear financial plan. She perceived the council's five-year strategic plan as more of a "compass" than a "roadmap," and feared that a multiyear financial projection would straitjacket creative thinking.

During the cohort experience, however, Williams incorporated financial projections into the council's five-year strategic planning process for the first time. Today, she has a model that allows her to project the financial implications of organizational decisions. Rather than limiting the council's possibilities, the multiyear budget has created transparency around how the organization is choosing to invest its financial resources and "live into" its mission.

2. Enliven Financial Discussions Through Dashboards

Visual dashboards are an antidote to rote reporting and an entry point into strategy conversations. Dashboards extrapolate trends and stories from financial data and focus management on what matters. The tool was a favorite in the cohort (https://www.wallacefoundation.org/knowledge-center/resources-for-financial-management/pages/dashboard-reporting-template.aspx) and has grown in popularity in the sector.

Despite a 65-year track record, for example, the link between programs and financial performance at the Boys and Girls Club of North San Mateo County remained unclear. Like many community-based nonprofits, the organization relegated finance to a bookkeeping rather than a strategic function, and financial data rarely influenced program discussions and decision-making.

CEO Aubrey Merriman was committed to overturning this norm and embedding a data-driven culture in his organization, proactively considering strategic questions such as whether it was investing financial resources in the right set of programs. Merriman introduced dashboard design as a team exercise, with program leaders and board members setting metrics to measure programmatic impact and operational health. The dashboard gave him and his team a shared language and tangible goals.

3. Codify Financial Health Through an Operating Reserves Policy

Many organizational leaders want to prioritize financial health but are unclear how to drive change. What catapults financial resilience from passive hope to active strategy is a surprisingly ordinary tool (https://fmaonline.net/wp-content/uploads/2018/06/Reserve-Fund-Policy-Template-and-Guide.pdf) : an operating reserves policy. This policy is a blueprint for how an organization plans to build, maintain, and—when needed—use its financial reserves. Because nonprofit organizations are, by definition, not designed to generate profit as their primary mission, operating reserves are rarely a default reality. Building reserves requires that leadership persist with and prioritize it.

Heather McCoy and Angela Ward led the century-old Santa Cruz Museum of Natural History during the cohort period. Originally owned by the city, the museum only recently became an independent 501(c)3 organization, and given a financially turbulent past, much of McCoy and Ward's work aimed to build awareness and consensus about what a financially resilient organization looks like.

Developing an operating reserves policy allowed them to place specific parameters on what level of reserves they wanted to build and maintain. They then connected the dots between those financial goals and their annual budget, developing a clear plan to achieve their reserve target through consecutive years of operating surpluses.

Lofty terms like financial resilience can feel vague and overused, but this financial resilience cohort was a concrete, two-year commitment to setting new organizational habits and practices. The cohort also held space for inquiry with peers on topics like succession planning and risk management, which often don't get the attention they deserve.

By grounding finance in a set of principles and values—multiyear planning, timely dashboards, and operating reserves—nonprofits can experience "aha" moments that lead to true organizational transformation and enable them to tell compelling financial stories to stakeholders. As a result, financial resilience can become reality rather than an abstract ideal.

Rebecca Coker, MPA, leads FMA's (@FMA4Nonprofits) West Coast region, developing innovative ways to help organizations realize and implement efficiencies in their everyday processes, and identifying ways to integrate change for sustained impact.

Neela Pal was a senior consultant at FMA during this project.

Miguel Salinas is a program officer for the Packard Foundation's Local Grantmaking program and leads the expansion of the program's organizational capacity building grants via the Nonprofit Breakthrough Fund. Prior to joining the foundation, Salinas worked for nearly a decade at Adobe, where he served as senior manager of Global Giving and program director for the Adobe Foundation.