

Financial Leadership

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Introductions

Who am I:

- Practice professional dedicated to serving those economically disadvantaged
- Roots in Hardin, Jefferson counties
- Social worker → someone interested in reconciling numbers to what we do → evidenced-based decision maker

I am not:

- CPA
- Attorney



Most
importantly...

Who are you





Learning Outcomes

After participating in this workshop, learners will be able to:

1. List three behaviors of high-functioning financial leaders,
2. Recognize at least one specific organizational risk and one mitigation activity specific to their organization, and
3. Identify at least one regional best practice to implement within their organization.

Agenda

1. Speak the same language
2. Review three basic financial leadership skills
3. Discuss risk
4. Share best practices
5. Identify resources
6. Close

Speaking the
Same
Language

Definitions

Definitions

For Profit v. Nonprofit

Profit motive

v.

Charitable purpose

Clear customer

v.

Third-party payers

Who is the Customer?

- Dell Computers?
- Meals on Wheels?
- T.L.L. Temple Foundation?
- You as a patient with health insurance?
- You as an attendee here (sponsored by United Way)?

Definitions

For Profit v. Nonprofit

Maximizing profit margin

v.

Balancing budget

Definitions

Accounting

- Auditing
- Budget analysis
- Business strategy
- Financial accounting
- Financial reporting
- Forensic accounting
- Information systems
- International accounting
- Macro/microeconomics
- Management accounting
- Professional standards and ethics
- Quantitative analysis

Finance

Finance typically focus on the management of current and future figures of a business or organization, as opposed to just the recording of past and present income and expenditure. This means that those in finance careers often have the added responsibility of predicting and analyzing the potential for profit and growth, assessing monetary resources, utilizing accounting statistics and reports, and also looking externally for future funding options.

Definitions

Finance

As a nonprofit leader, you do more than “the recording of past and present income and expenditure.....

You invest!

Definitions

Budget

- Plan in numbers (revenue/expense)
- Once a year
- Approved by board
- Per cost/revenue center
- Zero based (**best practice** – to ensure you are getting best prices, don't just automatically pull numbers forward. Go to those closest to programmatic activity to inquire at least once a year.)
- Does the budget change??

Definitions

Budget

\$10 per client X 10 clients = \$100

\$9 per client X 10 clients = \$90

\$10 per client X 9 clients = \$90

Definitions

Reserves

- Rainy day funds
- **Resource:** <https://www.councilofnonprofits.org/tools-resources/operating-reserves-nonprofits>
- **Best practice** check your donor for requirements
- **Best practice:** develop and comply with your own policy

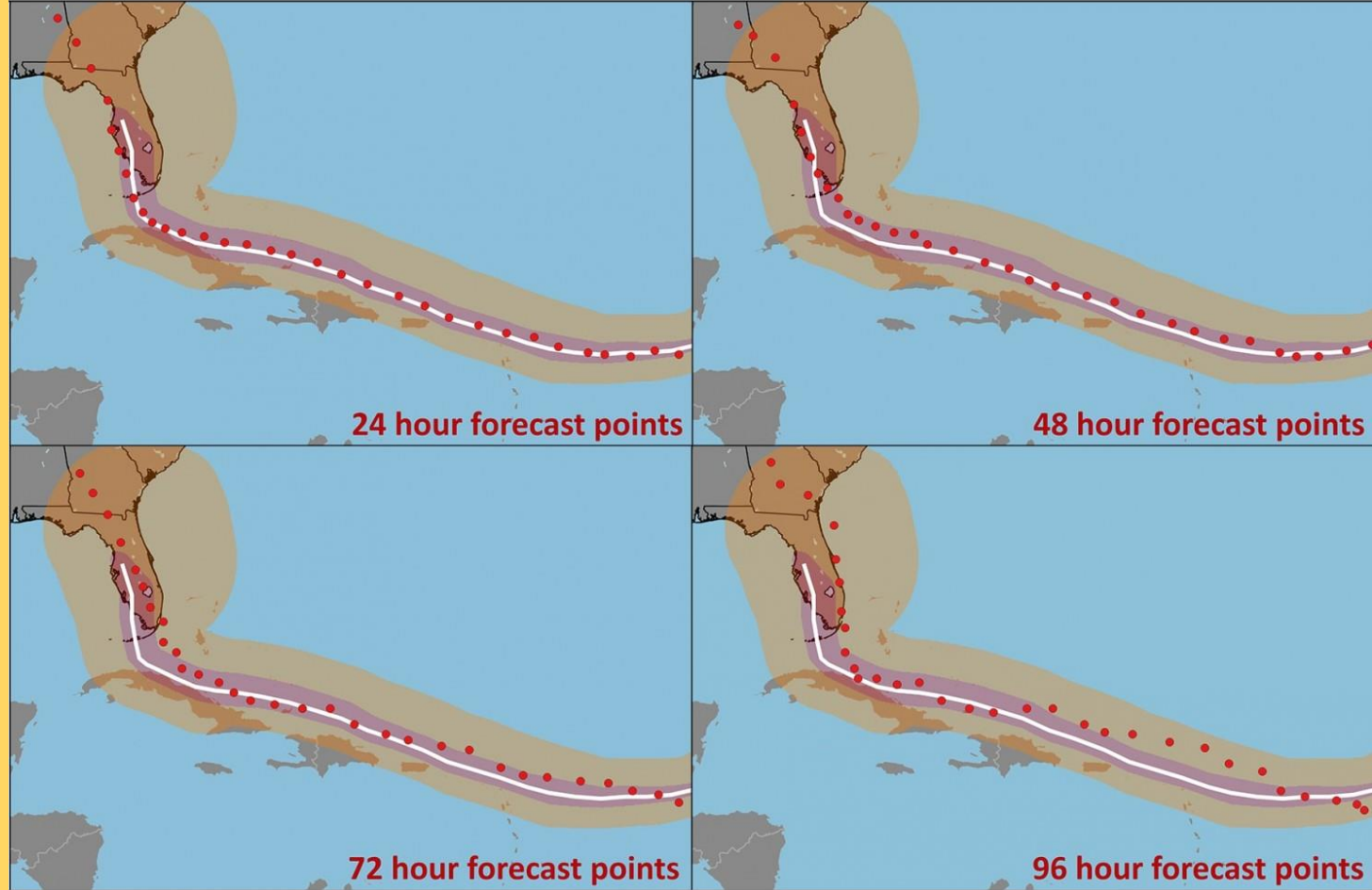
Definitions

Labor Costs

- Human resources
- **Best practice:** tracking volunteer hours captures the true costs of the services provided and the true value you provide to the community
- **Best practice:** know your frictional vacancy rate
- **Best practice:** some volunteer hours may be used as match for grants
- **Best practice:** under certain circumstances, volunteer hours can be included in financial statements
- **Resources:** GAAP,
http://www.fasb.org/jsp/FASB/Document_C/DocumentPage?cid=1218220124001&acceptedDisclaimer=true
- **Best practice:** handwritten thank you cards from the ED are a minimal cost and can have a maximum positive impact
- **Best practice:** one-time payouts (discretionary) can be a way to pay employees without having a long-term impact on the budget (see labor code)

Forecasting

Hurricane Irma Compared to 24, 48, 72 & 96 Hour NHC Forecast Points



White line = actual track | Orange swath = tropical storm force winds of 39-73 mph | Pink swath = hurricane force winds of 74 mph+

Definitions

Forecast

- Revised plan in numbers (revenue/expense)
- As you move forward in the fiscal year, you replace budgeted numbers with actual numbers. Therefore, the closer to the end of the year, the more accurate your projections become. Think Irma.
- Three times a year
- Not approved by board
- Per cost/revenue center
- **Best practice:** calendarizing your budget and forecast will improve the usefulness of trending analyses

Definitions

Risk & Risk Management

- The likelihood of adverse outcomes
- The thoughtful and strategic practice of minimizing the negative affects of adverse outcomes

Behaviors of High-functioning Financial Leaders

- Being informed
 - Budget or forecast to actuals (expense and revenue), this month and fiscal year end, year to year, receivables report
 - Greatest risk and how the organization is addressing it (**tip:** if your organization uses a an HR/payroll tool such as ADP, you can require employees to attest/report suspicious activities on a regular basis)
 - Visit programmatic sites, talk to staff, talk to clients
(group discussion)
- Projecting trustworthiness (Kearns, Livingston, Scherer, & McShane, 2015)
 - Building consensus
 - Following through with tough decisions
(group discussion)
- Communicating well
 - Up, down (**best practice:** user-friendly reports can help engage both staff and Directors)
(group discussion)

Risk & Risk Management

The likelihood of adverse outcomes

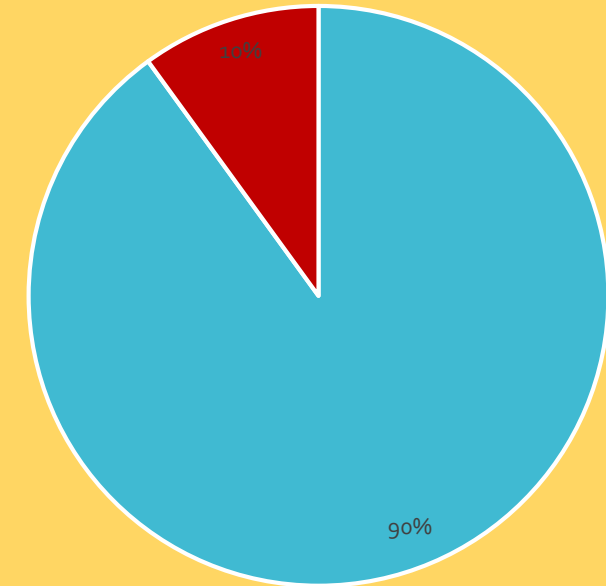
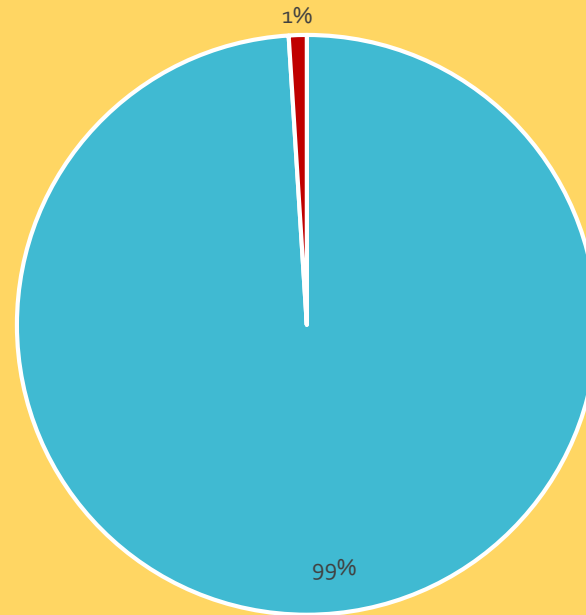
- Press
- Not achieving programmatic goals
- Volunteers
- Worker's comp issues
- FUNDING, FUNDING, FUNDING

Risk & Risk Management

Discuss risk – among
agencies/organizations.
Identify top two risks.

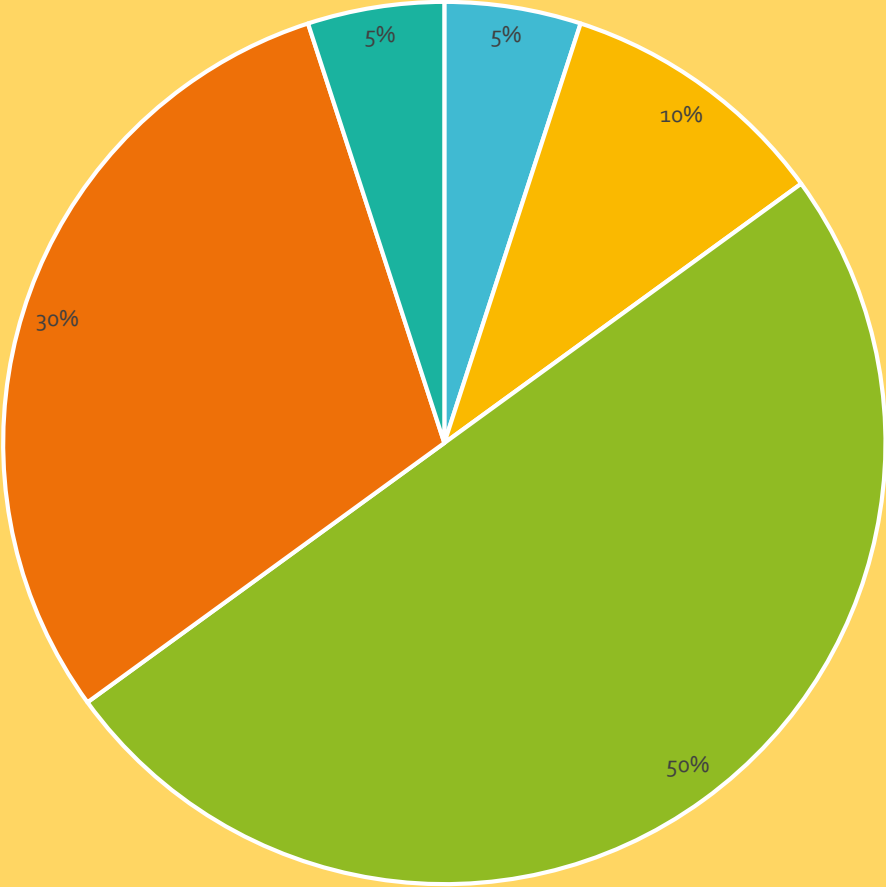
Funding Sources

Risk & Risk
Management



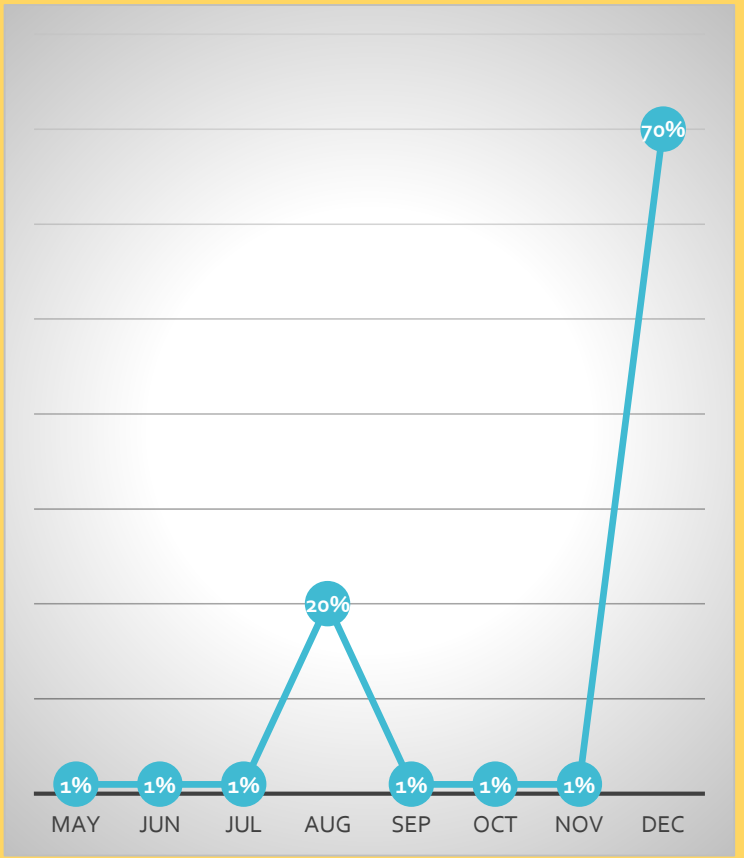
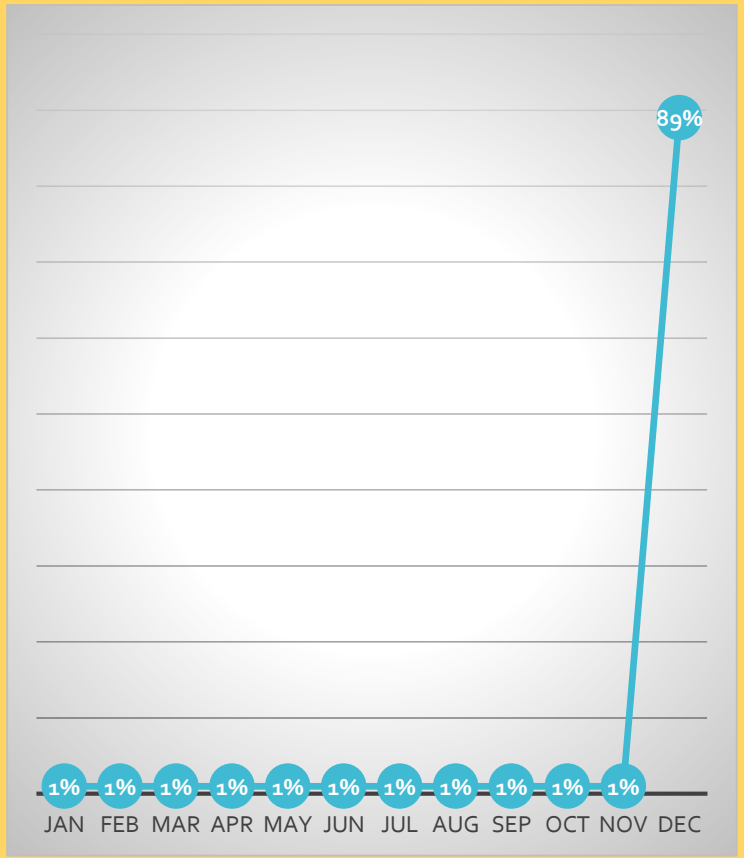
A Diversified Portfolio

Risk Managed

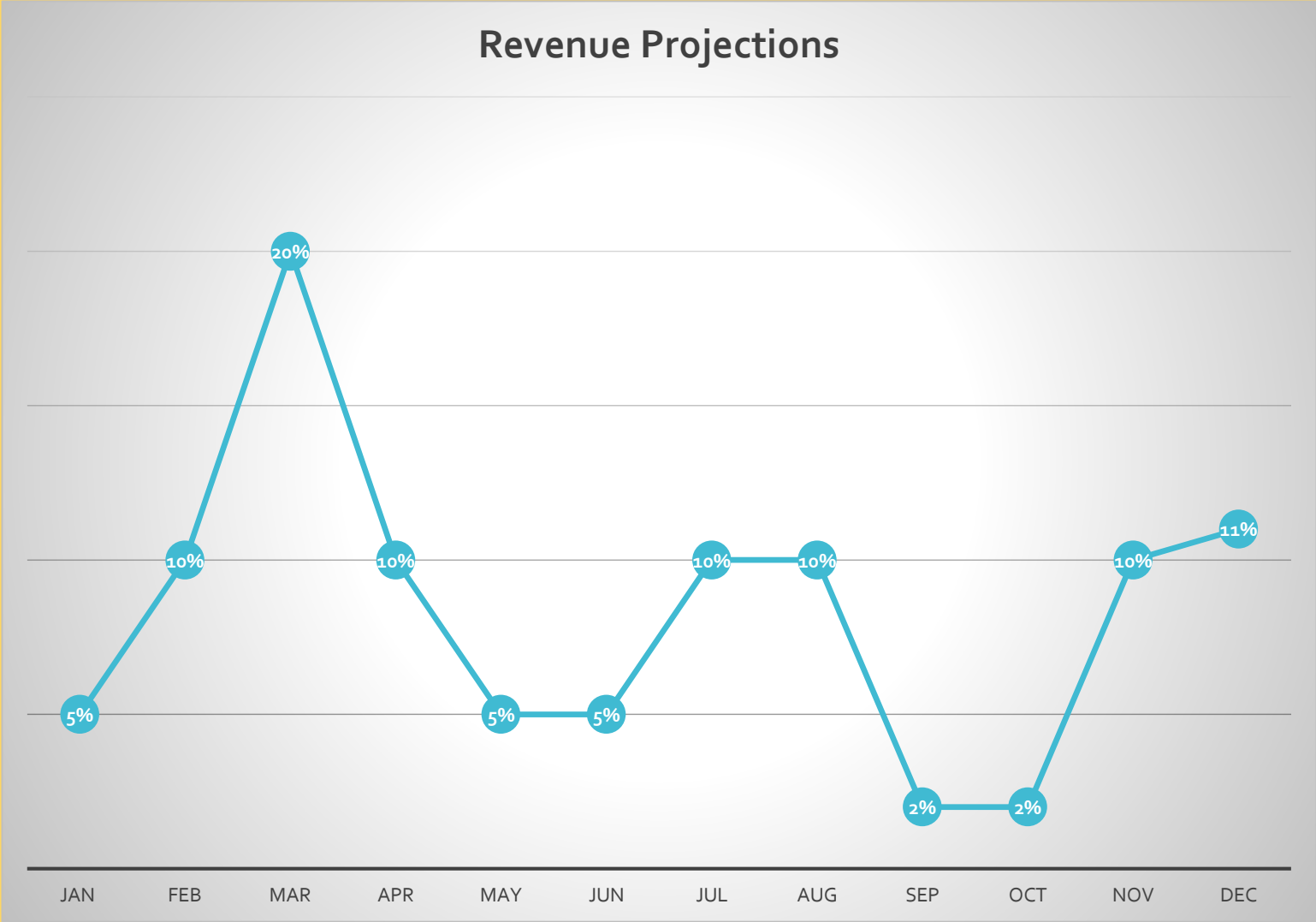


Risk & Risk Management

Revenue Projections



Risk Managed



Other Areas of
Risk?

Risk & Risk Management

- Form a risk management committee
- **Best practice:** inquire with insurance carriers regarding discounts for proactive risk management

Closing

- You are investors!
- Be clear who your customer is
- Clearly identify your stakeholders
- Employees and volunteers are probably your greatest financial asset
- Make it easier for your employees to do the right thing, and harder for them to do the wrong thing
- Identify risk
- Diversify revenue and investment portfolios
- Communicate successes often
- Use reader-friendly reports

Closing

List three behaviors of high-functioning financial leaders...

Being informed

Projecting trustworthiness

Communicating well

Recognize at least one specific organizational risk and one mitigation activity specific to their organization

Identify at least one regional best practice

References & Additional Resources

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- <https://www.grants.gov/>
- <https://www.law.cornell.edu/cfr/text/29/778.211>
- <https://www.linkedin.com/pulse/new-nonprofit-sector-heres-brief-overview-updated-carpenter/>
- <https://www.topuniversities.com/courses/accounting-finance/accounting-vs-finance-which-should-you-study>
- Sample reports – email me

Additional Resources