Nonprofit Finance Fund™

10 Finance Essentials for Social Sector Leaders

Effective Nonprofit Leaders....

1 ... keep mission, capacity and finance in balance.
These three elements are interdependent and exist in dynamic tension. If one changes, the others change, too. This happens in all organizations, whether seen or unseen, planned or unplanned.

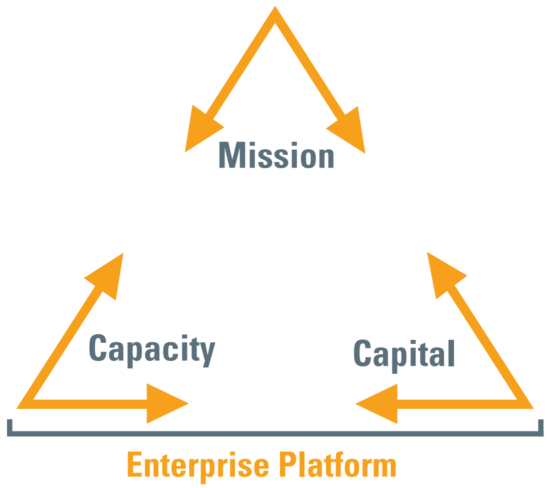
2 ... never ignore the dynamics of the "enterprise platform."
The combination of capacity and capital comprises the "enterprise platform," by which mission is delivered. It exists in every organization. It is related to, yet separate from, program and mission. Money does not flow directly to program; it is turned into program execution via the enterprise platform. If the platform is weak, program execution will be undermined. Nonprofits with similar missions and programs can have very different enterprise platforms.

3 ... are proud of nonprofit tax status.
It exists for a reason, and it's a commercial reason. We enter the market when the for-profit and governmental sectors can't, won't or shouldn't, generally due to a gap or failure in the market economy. This commercial flaw is why nonprofits (501(c)3s) are provided two powerful tools to reliably subsidize operations: tax exemption and access to tax-advantaged charitable contributions.

4 ... insist on having clear, reliable, routine, management-friendly financial information.
Effective leaders share it with their board, funders, internal and external stakeholders and use it as a tool to effectively communicate their organization's financial story.

5 ... can tell their program story in financial terms, and their financial story in program terms.
They, and others in senior roles and board positions, can fluidly connect money and mission based on the needs and perspectives of who they're talking to, and what they're talking about.

6 ... predict how their organization will end the year financially, on January 1.
They also know what the levers are that will make their prediction more or less likely. They will continue to update predictions with "actuals" and new projections to year-end and beyond as the year proceeds. They share these routine numbers with the board, and make course corrections accordingly.



7 ... understand that they manage in a looking-glass world, commercially speaking.
Many of the standard rules and conventions that for-profit managers rely on are reversed, or at best unreliable, in the nonprofit environment: growth almost always increases the need for fundraising and decreases "self sufficiency"; cash is not always fungible, "surpluses" are often prohibited; expenditures on overhead are seen as wasteful…and more. Leaders from the for-profit world must understand these (and other) management realities to make better decisions.

8 ... understand that they run at least two businesses.
There's the core business, related to delivering on mission (healing, teaching, sheltering, etc.), and then there's the "mission support business" (usually fundraising) that makes up for the market flaw.

9 ... understand that growth is especially demanding in the nonprofit world, for commercial reasons.
Growth is more capital intensive, takes longer, and is riskier from a quality control and mission perspective than for-profit sector growth (which is difficult as well). Increased revenue frequently means decreased net revenue.

10 ... distinguish regular, routine operating revenue from capital and extraordinary revenue, and manage accordingly.
They match their fixed costs to reliable revenue and understand (and fill) the capital demands of rapid growth, incremental growth, and routine capacity refreshment and maintenance.

Visit us at nonprofitfinancefund.org

Nonprofit Finance Fund (NFF) works to create a strong, well-capitalized and durable nonprofit sector that connects money to mission effectively, supporting the highest aspirations and most generous impulses of people and communities.