



Financial tools help board and management decisions

By Jim Simpson, CPA, Financial Technologies & Management

Nonprofits, like some for-profit companies, have two sets of leaders. The organization's executive director and its staff have the responsibility for ensuring that the nonprofit operates effectively on a day-to-day basis. At the same time, the organization's board of directors must ensure that the nonprofit remains relevant and financially sustainable.

Two components that are critical to maintaining healthy relationships between the two factions are shared expectations and the board understanding the organization's business model, specifically where revenue comes from and how the money is used.

The problem with financial health and sustainability indicators is that many leaders, staff and boards, do not have strong financial management skills. In our work with nonprofits, we have found that providing leadership with visual information, through charts and graphs, is most useful.

One way to share the organization's financial picture is using a dashboard. Much like a car's dashboard, it provides decision-makers information quickly and identifies problem areas. Areas to review regularly might include: program impact and outcomes, financial health and sustainability, operational excellence, staff and board development and development of external relationships.

For examples of simple dashboards and how they are used, see <http://www.blueavocado.org/content/nonprofit-dashboard-and-signal-light-boards> or <http://www.nten.org/blog/2009/04/16/dashboards-track-your-organizational-progress>

Another tool to use is a mission and matrix map (<http://www.spectrumnonprofit.com/matrixmap.pdf>). This map or a similar illustration explains how each program is funded. It also shows whether programs are self-supporting or draw funds from other programs or fundraising activities. The map equips board members with the financial knowledge and understanding needed.

The matrix exercise can be transformational in helping board members really understand how an organization works. First developed in 1968 by Boston Consulting Group's Growth-Share Matrix, in "Nonprofit Sustainability: Making Strategic Decisions for Financial Viability," the authors develop a framework to help integrate financial and social impact considerations into strategic decision-making.

(Review: http://www.ssireview.org/book_reviews/entry/nonprofit_sustainability_jeanne_bell_jan_masaoka_steve_zimmerman)

Contact Jim Simpson for assistance in developing your organization's key performance and financial indicators.

Jim Simpson, CPA and president of Financial Technologies & Management, is a financial leader and trainer, CFO advisor, and forensic accountant to nonprofit organizations since 1999, serving over 350 nonprofit clients. He has worked as a CFO, Controller and software advisor for over 20 years.