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RESULTS

The Groundwork for Successful Cohort-Based Fiscal Capacity-Building: An Evaluation of the Strengthening Financial Management Initiative

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Key Points

- This article is based on the findings of an evaluation of The Wallace Foundation's Strengthening Financial Management initiative, which show that it is possible, with well-designed training and support, to enhance the ability of nonprofit leaders to strategically manage their resources for long-term sustainability and programmatic quality.
- The initiative tested two models of capacity building – a relatively high-intensity approach and a lighter, though still substantive, model. While the two shared a common core of content, the amount of resources provided in each of the two models was dramatically different.
- In addition to the two main findings – that building nonprofit financial-management capacity is possible and that the gains arising from the more limited model were comparable to those seen in the higher-intensity approach – the study uncovered some key success factors with clear implications not only for potential replications of this type of project, but for cohort-based, nonprofit capacity-building efforts more broadly.

Introduction

As a funder and supporter of nonprofit service providers, we at The Wallace Foundation have seen evidence of the financial-management challenges that sometimes seem endemic to the sector: the grant application with a poorly thought-out budget (or none at all); the promising program derailed by fiscal instability. All of us can probably name the one or two (or more) grantees in our portfolio in a constant state of struggle with numbers that they can never quite get to add up. Yet grantmakers – even those inclined to support the organizational development and capacity of their grantees – seldom focus their investments specifically on improving nonprofits' financial-management capacity. To some extent, this may be a byproduct of the emphasis on program-focused funding among foundations and philanthropy in general. But it also likely stems from a lack of certainty about what kinds of investments in financial-management capacity would actually drive successful results.

A recently completed independent evaluation of a major finance-focused capacity-building initiative undertaken by The Wallace Foundation addresses this uncertainty. It shows that with well-designed training and support, it is possible to enhance the ability of nonprofit leaders to strategically manage their resources for long-term sustainability and programmatic quality.

Until recently, The Wallace Foundation was in the camp of grantmakers whose attention to grantees' finance function was limited to the requisite request for audits and budgets in grant applications. This began to change several years ago, when we commissioned a study seeking to assess and document the per-participant costs of a sample of high-performing after-school programs nominated by field leaders in six U.S. cities. The team conducting this study encountered unexpected difficulty simply collecting the financial data it needed from many of the participating organizations due to issues with their accounting systems and management capacities. As the researchers explained:

> [T]he data systems, accounting systems, and fiscal-management capacity of programs in the study varied greatly. Some had the capacity to provide clear and comprehensive information on their income and expenditures, as well as the receipt and valuation of in-kind contributions. Others did not have systems that track financial information in this detail. ... It is worth noting that the size of the study sample was significantly reduced because so many programs lacked the capacity to provide the information our study team was seeking. (Grossman, Lind, Hayes, McMaken, & Gersick, 2009, p. 5)

If even high-performing after-school programs faced challenges with basic financial data-production tasks, to say nothing of higher-level financial analysis and strategy, we wondered: How widespread could this problem be? And how much could it jeopardize the programmatic quality and effectiveness that our grantmaking was designed to support?

To explore these questions we commissioned a second study, this one focusing on the administrative capacity of a sample of 16 nonprofit after-school providers in New York City and Chicago (Summers & Price, 2008). Not surprisingly, given our experience with the original project, this study found that challenges with administrative capacity – financial management in particular – were real and widespread among after-school youth-service providers.[1] Key conclusions of the study included the following:

- Many organizations did not understand and budget for the true costs of running their programs, affecting their ability to recoup those costs and limiting their capacity to make strategic decisions based on the financial impact of programs.

- Many organizations experienced a shortage of skilled finance department staff with appropriate knowledge of accounting for nonprofits.

- Accounting software systems were often not used to their full capacity to produce insightful and actionable financial reports.

- Organizations' financial-management efforts were typically focused much more on compliance with external obligations (e.g., responding to the reporting requirements of government and, in some cases, even private funders) than on setting and monitoring organizational strategy for best using financial resources.

The financial-management function in after-school nonprofits tends to be tactical, reactive, and driven by external demands and crises, rather than being a forward-looking contributor to organizational strategy and sustainability.

As a result of these challenges, the study concluded, the financial-management function in after-school nonprofits tends to be tactical, reactive, and driven by external demands and crises, rather than being a forward-looking contributor to organizational strategy and sustainability.

With two studies in hand demonstrating, indirectly and directly, the financial-management limitations facing organizations so central to the social change we were trying to advance, Wallace felt an obligation to seek and test solutions. Partnering with FMA, a consultancy focusing on nonprofit

[1] While we have no reason to doubt that the same challenges are present among social-service nonprofits more broadly, after-school programs are and have long been a key grantmaking focus of The Wallace Foundation.

RESULTS

The initiative tested two models of capacity building – a relatively high-intensity approach and a lighter, though still substantive, approach.

financial management, we designed a program intended to test the effect of two models of consulting and training on the financial-management capacity of a group of after-school providers, choosing Chicago as the location for our work. And as this initiative was intended not simply as a one-off technical assistance program to benefit a lucky few organizations but potentially as a model of financial capacity-building that could be employed by others, we commissioned an independent evaluator to study the initiative and its results. Those results are now in, and we believe that they indicate a productive way forward for a critical – and, to date, critically under-resourced – element of nonprofit effectiveness and sustainability.

Program Design and Theory of Change

The program, which we titled "Strengthening Financial Management in Out-of-School Time," was designed as a multicomponent, four-year consulting and professional-development initiative to assess needs, train staff, and implement systems and processes for more effective and strategic financial management.[2] Nonprofit after-school providers were selected for participation on the basis of a competitive application process that assessed readiness to commit to and participate in the project, the quality of their youth programs, and their overall financial health. The 26 organizations selected for the program represented a wide range of Chicago's after-school sector, including both single-service and multiservice organizations and overall budgets ranging from under $1 million to more than $20 million.[3] FMA served as the content experts, management consultants, and trainers throughout the initiative.

The initiative tested two models of capacity building – a relatively high-intensity approach and a lighter, though still substantive, approach. While the two models shared a common core of content – including an emphasis on financial best practices, financial competency, and decision-making processes in the organizations' leadership teams (including program and development management) – the amount of financial and consulting resources provided in each of the two models was dramatically different.[4]

In the higher-intensity model, which we refer to as Customized Learning, 14 participating organizations received an on-site fiscal-practices assessment; an assessment report and a work plan from the consultant; extensive management consulting support on executing the work plan; chief executive officer and chief financial officer peer-learning sessions with other program participants; and an upfront grant of $115,000 to cover investments of staff time and any hard costs associated with participation. Organizations in this group also were offered an incentive grant of $125,000 structured as a working capital reserve, contingent on successful completion of its work plan. In the lighter Group Learning model, 12 participating organizations undertook a guided self-assessment of their fiscal practices, developed their own work plans with some support from the consultants, brought leadership teams to eight days of quarterly structured training with other members of the cohort, received eight hours of consulting time to work on identified priorities, and received up to $65,000 in grants – an initial $40,000 for staff time and capital costs and a follow-up grant of $25,000 contingent on showing sufficient progress toward

[2] The initiative also included a component designed to address public and private funder practices that potentially inhibit financial-management effectiveness among nonprofits, such as onerous financial reporting requirements, late or delayed grant and contract payments, and limited funding for administrative expenses. This article addresses only the direct organizational capacity-building component of the initiative.

[3] One of the 26 organizations closed before the completion of the initiative.

[4] Organizations in the Customized Learning cohort received a median of 704 hours of contact from FMA over the course of initiative, including consulting project time, coaching sessions, and group training; organizations in the Group Learning cohort received a median of 183 hours of contact.

FIGURE 1 *Strengthening Financial Management* Theory of Change

Source: Kotloff (2012).

goals. Front-line finance staff from both the Customized Learning and Group Learning cohorts were offered skills-development training in the form of a three-day nonprofit accounting certification program.

Our theory of change held that the improvements in skills and capacity that would be accomplished by the interventions would lead managers to adopt a more strategic approach to financial and resource-allocation decisions, ultimately resulting in higher quality and more sustainable programs and programmatic outcomes. (See Figure 1.)

To assess the effectiveness – in absolute and relative terms – of the two approaches, Wallace also

TABLE 1 Indicators of Effective Financial Management

Indicators of Effective Financial Management
Finance Office Practices • Number of cash flow projections produced in a year • Number of weeks forward cash flow is projected • Usefulness of software (the degree to which financial software helps create clear reports or contributes to the efficiency of the finance office) • Financial Staff members' skills and responsibilities • Clarity of financial reports
Team Decision-Making to Support Strong Financial Management • Financial skills of the program staff • Number of times per year that program managers are involved in budget monitoring
Organizational Stability and Quality • Turnover rate • Percentage of CEO's time devoted to strategic thinking
Sustainability of Changes • Documentation of financial procedures • Written job descriptions

engaged an independent research team to design and conduct an evaluation of outcomes among the participating organizations.[5] A baseline assessment conducted by the evaluators showed that organizations participating in the initiative had many of the same weaknesses identified in the Summers and Price (2008) study, including incomplete understanding of the true costs of program delivery, staff with limited nonprofit accounting knowledge and skills, and a lack of capacity for effective financial reporting and forecasting (Walker, Grossman, Andrews, Carrington, & Rojas, 2015).[6]

Evaluation Methodology

The evaluation team surveyed leaders of participating organizations, including CEOs and CFOs, and reviewed financial reports and documents at the outset of the initiative to establish a baseline of practices across a wide range of indicators of nonprofit financial-management effectiveness. (See Table 1.) Over the four-year initiative, the researchers conducted surveys of CFOs every nine months and annual visits with selected participants to talk directly about their practices and qualitative experiences with the initiative. Finally, after the conclusion of the initiative, the researchers resurveyed the organizations' top leaders to assess and document changes in the financial-management practices being studied. Results were tabulated and tested for statistical significance across each of the indicators to show the impact of the two models.[7]

Results

In short, the program worked. Twenty-three of the 25 participating organizations made meaning-

[5] The organization originally hired to carry out the evaluation was Public/Private Ventures; when that organization disbanded in 2012 due to its own financial challenges, the lead researcher and the project were transferred to a partnership between MDRC and Child Trends.

[6] Coincidentally, the initiative launched in early 2009 – a point at which the financial crisis and looming recession had made financial sustainability and risk management top-of-mind issues for organizations around the country, nonprofit as well as for-profit.

[7] For a full description of the research methodology and results, see Walker, et al., (2015), Chapter 3.

ful, quantifiable progress toward best practices in at least some of the areas being studied. In around half of the organizations, progress was achieved on 80 percent or more of the indicators. Areas that the evaluators singled out as showing strong evidence of progress included staff financial skills, better use of accounting software systems, production of useful financial reports, and more effective collaboration across departments on financial matters (in particular between program management and finance functions). Moreover, these gains were sustained even beyond the first two years of the initiative, when the consulting and training support to both groups was most intense.[8] In summary, the researchers found that "the initiative appeared to help financial and executive staff members create substantial and long-lasting changes in their organizations' financial management" (Walker, et al., 2015, p. 53).

Because of time constraints, the evaluation did not examine actual program improvements. However, the researchers did receive qualitative reports from participants that the initiative had positive implications for their ability to sustainably deliver quality services. Better understanding of the true costs of program delivery and better financial decision-making structures allowed organizational leaders to evaluate funding opportunities and accept only those that adequately covered the costs of services. Organizations also were able to better project and manage cash flow, allowing them to proactively manage spending and avoid service interruptions due to cash shortages. Finally, and most fundamental to program delivery, all but one organization survived one of the most challenging financial periods of recent history, continuing to deliver critical services to young people and families in the Chicago area.

But perhaps the most interesting finding is one that we did not expect from the outset when we designed two models that were very different in scope and resources: the gains arising from the more limited Group Learning model were comparable to those seen in the Customized Learning model, which featured much more extensive consulting support.[9] To be sure, the overall gains under the Customized model remained somewhat greater, and the Group Learning organizations achieved their gains more slowly (three to four years to achieve a level of change similar to what the Customized model achieved in two). But given that Group Learning participants received on average only a quarter of the consulting support and grant funds offered in the Customized Learning model, the fact that they achieved significant capacity gains demonstrates to us that a well-designed training and coaching initiative can be almost as effective as – and potentially more cost effective than – a significantly more resource-intensive model.

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Lessons and Discussion

In addition to the two significant findings – that building nonprofit financial management capacity is possible and that it can be done with group

[8] Ninety percent of FMA's training and consulting support was delivered to participants during the first two years of the initiative.

[9] It is important to note that the Group Learning model included self-assessments and coaching from consultants in addition to quarterly trainings.

The bulk of FMA's work was delivered over two years (with ongoing but more limited engagement with participants for two additional years), much longer than a typical professional development program. This length of engagement offered sufficient time to institutionalize changes as new practices took hold among staff who were sometimes resistant at first, new processes were documented in manuals and protocols, and new reporting standards were built into accounting software.

training and coaching almost as well as with individualized consulting – the study of the Strengthening Financial Management Initiative (SFM) uncovered some key success factors, with clear implications not only for potential replications of this type of project but for cohort-based, nonprofit capacity-building efforts more broadly.

- Successful organizational change and capacity building are highly influenced by the commitment and motivation of top leaders within the organizations. Organizations whose leaders came to the SFM with a pre-existing plan of improving their financial systems and processes were the ones that ultimately realized the greatest outcomes, achieving progress in 80 percent or more of the best-practice-indicator areas being assessed. This suggests that the intrinsic motivation of organizational leaders for change is a key factor in successful capacity-building efforts.

- Effective capacity building requires not only the expertise of skilled consultants and trainers, but also the funding to pay for hard costs, such as new or enhanced software systems and other infrastructure investments to support new processes and practices, and to cover the staff time needed to implement change. On average, organizations in the Customized Learning and Group Learning cohorts invested 800 and 1,000 hours of their own staff time, respectively, in carrying out work related to the initiative. One explanation suggested by the researchers for the relatively slower improvement trajectory for the Group Learning cohort in comparison to their Customized Learning counterparts was the magnitude and timing of the cash grants to each group, with the former receiving an initial grant of $40,000 and the latter receiving a $115,000 initial grant. The Customized Learning organizations therefore had substantially more initial funding to invest in the necessary software, infrastructure, and staff time.

- Major and lasting change takes time. The bulk of FMA's work was delivered over two years (with ongoing but more limited engagement with participants for two additional years), much longer than a typical professional development program. This length of engagement offered sufficient time to institutionalize changes as new practices took hold among staff who were sometimes resistant at first, new processes were documented in manuals and protocols, and new reporting standards were built into accounting software. With this long time horizon, the new and enhanced practices proved resilient even in the face of turnover among executives, which was not uncommon over the course of the initiative.

- Unlike many professional development efforts that primarily focus on more junior staff, the SFM was consciously designed with the intent to develop the skills and practices of top organizational leaders and leadership teams.

Our belief, borne out in the results, was that affecting change at the leadership level by strengthening senior teams' focus on financial strategy, planning, monitoring, and operations would ultimately drive change across all levels of the organization.

Moving Forward

Given the demonstrated success of the SFM Initiative and the ongoing importance of effective financial management for healthy organizations and quality programs, The Wallace Foundation may explore whether it is possible to scale key elements of the initiative to benefit nonprofit organizations on a wider basis. One way we have approached this is by building a website, StrongNonprofits.org, to make available key tools and resources adapted from the initiative for "do-it-yourself" use by nonprofit leaders and financial managers.[10] The site also includes links to other publicly available tools and resources that reflect the initiative's goals of stronger and more strategic nonprofit financial management. Tools from the site have been downloaded thousands of times, and other funders and capacity builders have seen the value of these resources and have taken steps to promote the site to their own constituents – in some cases even "shadowing" the resources on their own sites.[11]

Ultimately, though, one foundation can only do so much. We at Wallace are hopeful that the success of this initiative will inspire other funders and stakeholders throughout the sector to understand that the nonprofits we support can benefit from not just our dollars, but from our help in building the knowledge and skills they need to use those dollars effectively and sustainably.

[10] See http://strongnonprofits.org
[11] See https://forbesfunds.org/financial-tools

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