

## CFOs Delve into Business Planning

The members of Bridgestar's New York Nonprofit CFO Networking Group, which comprises more than a dozen nonprofit chief financial officers (CFOs), held a wide-ranging discussion about many facets of business planning at one of their monthly meetings. Jon Huggett, then a partner at The Bridgespan Group, set the framework for the discussion by giving an overview of business planning, and then presenting a case study of the business planning process that the Association for the Advancement of Mexican Americans (AAMA) went through and the ensuing decisions the organization made<sup>1</sup>. This was followed by a lively question and answer session that touched on everything from helpful planning tools to the wrenching decisions that have to be made when a popular program is no longer financially viable. The following highlights from the discussion offer valuable insights from both Huggett and from practitioners in the field. Aside from Jon Huggett, participants are identified only by their initials.

### **Q: How is a business plan different from a strategic plan?**

**Jon Huggett:** A really good strategic plan is the same as a business plan.

**MT:** There is a joke that a business plan is a strategic plan with numbers—the difference is it talks about the financial implications of the strategy.

### **Q: Where do you see the CFO getting involved in business planning?**

**Jon Huggett:** At a very base level, the CFO is nearly always the one who has intimate knowledge of what the financial impact will be of decisions. Working with CFOs over the years has shown me that CFOs make a big difference in understanding what the true costs are. It's not always obvious how much different programs really cost. A lot of overhead costs sit in a large bucket. How development activities fit with specific programs can be clarified by the CFO. Beyond that, the CFO can understand the economics of a program. If we triple the size of a program, will that increase our economies of scale or make the program unsustainable? If we were to replicate this program, what's the implication for overhead? The CFO is in a unique position to be able to say, "If we're here now and want to go there, what resources do we need to get there?"

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<sup>1</sup> The case study with which Jon Huggett launched this discussion about business planning is titled "The Association for the Advancement of Mexican Americans: Focusing for Impact." It can be found on the Bridgespan website at <http://www.bridgespan.org/LearningCenter/ResourceDetail.aspx?id=204>.

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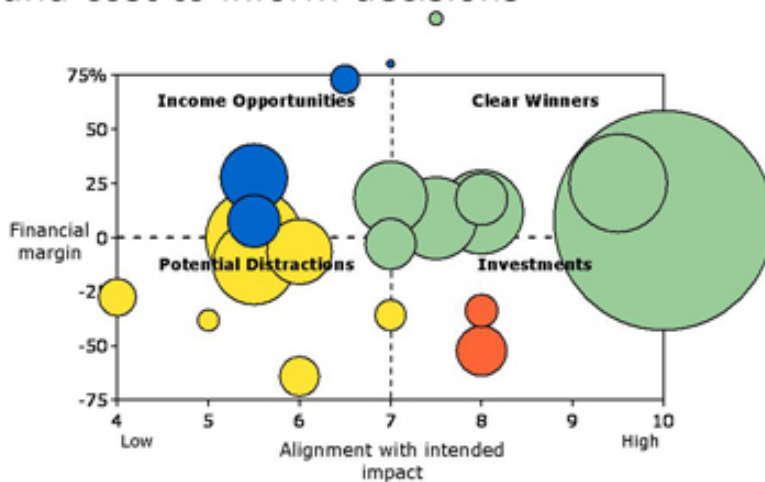
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**AA:** The CFO should be involved in every section of the business plan: the vision, the planning, and even in the outcomes. Targeting the populations, the outcomes, how you're going to arrive at the outcomes—the CFO needs to cost them out. If you have three to four outcomes, how are you going to arrive at them? You have to build some kind of financial tool, either a staff- or management-information system—how are you going to arrive at that? In Jon's presentation about AAMA there's a graph showing how to use impact alignment and cost information to make decisions about your programs.

## Multi-service agencies can use alignment and cost to inform decisions



Note: Circle size indicates relative size of each program

TSG 071207-6PC-Bubble Chart 1

Bridgespan helped us create a similar chart for our organization and it gave us a look into what makes sense to continue, and what might not make sense, given where they sit on the chart in terms of both alignment and financials.

When we did our business plan, I participated in all the meetings. We met with the board and then worked with senior management. The CFO should be involved, working from historical information, current information, and planning going forward. We revised our alignment and cost chart 50 times. As a result of this analysis, we dropped programs. We've also had programs come to us and ask if we can take them on, and we've said "no," because they don't fit with our outcomes goals.

**RP:** The CFO is in the best position to understand growth opportunities.

**AA:** Here's a specific example. We have one program with a big budget that has only one person from administration with an allocated 10 percent overhead. But the real overhead cost is three percent. And another program that requires a lot of finance and accounting support where the real cost is 18 to 20 percent overhead. How should we really allocate expenses? Some programs are just easier to administer, and the numbers should reflect that.

**Q: Is it common for leaders other than the CFO to be surprised by the cost data associated with various programs?**

**Jon Huggett:** One organization thought they were running a program at breakeven. There was a huge asset on the balance sheet that had been donated, a building. None of the programs in the building was paying any rent. The programs across the street from the building were being charged for rent. People had somehow thought the expenses were equal across the various programs—no one had ever thought about how some programs were only running at breakeven because they weren't paying for any rent.

**CB:** There was a situation we had that was similar. We created a foundation to hold the building, and charged the government rate for rent for the building. In the documentation, they could cover their overhead in this way. They owned the building; it was given to them free. That way they were able to bill for overhead for the rent.

**Q: Do you have any other examples of organizations choosing to give up programs because of analysis you did through the business plan process, and the impact on an organization?**

**JA:** You put your heart and soul into something, it's hard to not continue it. But if you care about meeting needs in a particular community over the long term, you'll make those hard decisions.

**JR:** We're in the process of trying to spin out programs. We've been around for 150 years. We run a large program where we have retirees going into the public schools to tutor kids in the third and fourth grade. It's not at scale and we don't have the capacity and resources to bring it to scale. We've got to get the government, private sector, or others involved. We had other programs that were small and on life support for years—it was easier to close those down. We've been around for a long time and we're in the process of doing a number of things that require some hard choices. We've lost some staff that didn't like the direction we're going in, we've got the board engaged, and we have a strategic implementation committee. We want to remain successful and that's why we're doing these things. We've also had to narrow our focus and cut out certain populations. There's another program we're going to spin out as its own 501(c)(3). That could take up to three to five years.

**Q: How do you deal with situations where a program has been “sexy” to foundations and, while losing money in the short run has attracted the interest of various foundations? Or has anyone had the experience of figuring out what to do with a board member’s pet program that is losing money?**

**JD:** I used to work with an organization in the Midwest where we were deciding whether to close a clinic that was losing money. Closing the clinic would have had a huge impact because it was located in the capital of the state. Yet, how could we decide what the financial cost would be of what would be a very challenging political situation if we made the decision to close the clinic?

**Jon Huggett:** In the first case, if a foundation is excited about an innovative program, I’d suggest going back to that foundation and telling them you need more funds if you want to keep the program running. The challenge is often that foundations will be interested in funding the start-up of an innovative program, but once it’s up and running, they move on. Then you have a program that’s losing significant sums of money. In the second case, I’d wonder if you could work with the local or state government in such a way that would keep the clinic open financially?

**MT:** What did you decide to do with the clinic?

**JD:** We decided to keep it open, with the reasoning that the political capital of keeping it open outweighed the financial losses we were incurring. The decision was based more on gut feeling and instinct, because the board had a hard time assigning a dollar value to it.

**BR:** That amplifies the point that it’s not just a bottom-line decision. If you’ve sustained a program for any amount of time, and you have to make the decision to shut it down or spin it off, you need to share this with your constituents so they’re on board and to reduce the political/relational costs of that decision.

**Q: What kind of plans have you seen that have transformed an organization? What kind of characteristics have there been to those plans?**

**BR:** We designed corporate-wide dashboards and metrics, and then departmental, and then the units. And all of that contributes to the big picture. A key ingredient is getting folks throughout the organization engaged. Coming up with a strategic vision that, at the end of the day, represents all of their thinking, and along the way you make concessions and that’s a difficult thing to do. It’s a necessary process, but getting the buy-in is essential. The numbers tell a story and, inevitably, those folks who in the past might not have embraced the numbers and the metrics can now tell the story. The dashboards are visible to everyone.

**JR:** Communication has been key. We've held multiple executive committee off-sites, management team off-sites, all-staff meetings every other month in the last eight months. We used to have them once a year, around the holidays. We are creating and sending out an employee satisfaction survey where anonymity is key, and there's a lot of follow-up. It's a lot of work.

**BR:** I've been the "bad guy," so to speak, in stubborn pursuit of some of these goals. We face staff turnover, and every time we add another program, that's another program that needs to be integrated. A strategic plan loses its luster if it's just a starting and an ending point. It needs to be fluid; it needs to evolve with the marketplace, the talent you have, the new talent you can attract. We have senior staff meetings every Tuesday. I've been trying to turn them into strategic sessions—we have 1.5 hours every week where we could discuss these high-level strategic issues. We've developed a number of teams in the organization. We haven't looked at programs that we should drop yet, but we've focused on new things. What's going on out there? How can we leverage what we currently have in terms of relationship and resources?

We focus a lot on customer satisfaction. Our clients have choices. If we do a bad job in service delivery, they can go somewhere else. We've come up with employee satisfaction surveys asking about their sick days off, internal promotion, training hours. I've been the statistician behind all of this, engaging HR [human resources], senior managers—particularly those managers whose departments have experienced high turnover. We haven't used an outside consultant. I've been able to work with the senior management, directors, and line staff to develop scorecards. If a particular team has done well, we put up a star in the lobby to recognize their good work to promote teamwork. This has involved lots of number crunching, lots of analytics, and lots of conversation.

**AA:** We took the business plan and we named every year. Our first year was our leadership year, the next year was outcomes year. But we did something very nice—we created working groups within the agency. We're a youth and development agency. There's a group for youth development, HR, IT [information technology], one to discuss issues related to children and families. Any of the staff from the agency are able to join a group with approval from their supervisor. The groups meet every quarter, and recommendations go to the administrative team. If the administrative team thinks a recommendation is good, it goes up to the senior management team for approval and implementation. I find a lot of talent throughout the agency in this process.

**BR:** We have identified a champion—and it doesn't have to be a senior manager—to run these groups and report on progress.

**AA:** We do an annual satisfaction survey of our staff, 27 questions A-Z (agency, vision, communications, salary, etc.). We publish a quarterly internal news bulletin to the entire agency by department. We set up benchmarks on the staff survey questions and if we find we're scoring below the benchmark for any particular questions, we create an action plan to address the issue. This all came from our strategic planning and business planning process.

**Q:** I'm hearing everything and it all sounds very smooth. I've been at my organization for three or four months and we're embarking on this multi-year planning process. I'm seeing politics at work at the board level; I'm still trying to build credibility. I'd like any recommendations on how to gain buy-in. All of these concepts are new to this management team.

**JR:** I'd recommend lots of face time. Our president went on a listening tour with each of the trustees over several months' time. We have 37 board members. We lost some of them in the process, as well as some staff after we implemented the plan.

**Jon Huggett:** I'd recommend time: time on the clock and time on the calendar. Face time and elapsed time. A lot of the time, the planning process can be rushed and that can create problems. Otherwise, you might miss out on insights from staff. You need to give people a chance to talk about it with their families, friends, other staff. Pacing is important.

**BR:** I think you have an advantage since you're new. You can be inquisitive and curious. My advice is to find out what's important to them and sprinkle that around as you go out there and talk to people. You have an advantage since you're new—you can ask almost any question.

**AA:** I think you should start with the board. That's my own opinion—you could start to survey what the board wants, what they're looking for, how they're involved. We do a survey of the board and they evaluate themselves, what they want to see. Then you have your board strong with you.

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