The Skills to Pay the Bills

An Evaluation of an Effort to Help Nonprofits Manage Their Finances

Executive Summary

Karen Walker
Jean Grossman
Kristine Andrews
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February 2015

mdrc
BUILDING KNOWLEDGE TO IMPROVE SOCIAL POLICY

This report was commissioned by
The Wallace Foundation®

Child Trends®

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Karen Walker
(Child Trends)

Jean Grossman
(MDRC)

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Overview

Nonprofit organizations, which deliver many of the social services Americans receive, often face financial management challenges that affect the quality of their services. First, they face complex public and private funding environments that impose substantial administrative burdens and economic uncertainty. Second, many have insufficient internal capabilities (many organizations would call these "capacities") to respond to these realities. This report examines how 25 Chicago-based organizations responded over a four-year period to an initiative designed to address these two aspects of their financial challenges.

Between 2009 and 2013, the Wallace Foundation funded a management consulting firm, Fiscal Management Associates, to provide the 25 nonprofit organizations that participated in the project with one of two models of professional development: (1) a customized model that included substantial individual consulting and group learning for organizations' leaders, or (2) a model that provided primarily group learning opportunities. The foundation also provided grants to the 25 organizations designed to offset some of their costs. Simultaneously, the Wallace Foundation funded the Donors Forum, a Chicago-based organization, which worked to improve the public funding environment for nonprofit organizations in Illinois. During the evaluation period, the Donors Forum provided staff support to assist four state human service agencies in their efforts to implement legislation to streamline contracting practices.

Over the four years of the initiative, all the organizations but one made long-lasting changes in their financial practices. Interestingly, the financial practices of organizations receiving the less costly group learning model of support improved almost as much as those of organizations that received the customized learning model, albeit more slowly (that is, in three years rather than two). This indicates that the group learning approach could be cost-effective in cases where time is not an issue. Organizations in both groups invested between 800 and 1,000 hours of executive, financial, and program staff effort to reach their financial management goals. This investment led to stronger outcomes in organizations whose leaders' priorities closely aligned with the project's priorities. While the research did not measure the quality of organizations' services, leaders and senior staff members reported that better financial practices led to better program planning and management and improved organizational stability.

Efforts to improve public funding practices met with mixed results. The state created a repository that permitted nonprofit organizations to submit standard financial information once a year instead of multiple times a year. However, the biggest challenge the organizations faced — late payments from the state — was not addressed because of the severity of Illinois' budget crisis.

This report discusses lessons learned from the initiative about strengthening the financial management of nonprofit organizations but also, more generally, about how to improve organizational capabilities.

Preface

Apart from public education, most of the social services received by Americans are provided by nonprofit organizations. Public and private funders alike bemoan the fact that many of these services are not as strong or effective as they might be. When moved to do something about this situation, their common response is to try to alter programs or train the staff members who administer them. But all too often these strategies do not work because the organizations themselves are too weak: they are understaffed, their funding is uncertain from year to year, they have deficits, or they have high staff turnover.

This report examines a different approach, one that aims to improve the organizational capabilities of social service organizations (many would call these "capacities") by strengthening their financial management and lessening the burdens funders put on the organizations they support. The theory is that if organizational leaders can spend less time keeping their organizations solvent, they can spend more time ensuring the quality of their programming and staffing. To test this idea, the Wallace Foundation funded a long-term organizational capability-building process, an effort to reform funder practices, and a long-term study to inform a wide audience about what was or was not working.

This study is unique in several ways. First, it contrasts how organizations reacted to two different models of professional development — a highly customized intervention and a group learning intervention. Second, it examines how organizations changed over time and provides important insights into how long it takes to achieve organizational change. Third, it is the first study to document the long-term effects of building organizations' capabilities. Fourth, it carefully documents the costs of the intervention, including both the costs of the assistance provided to the organizations by a consulting firm and the time and money expended by the participating organizations themselves. Finally, the report also examines an effort to improve the funding environment of nonprofit organizations, and highlights the challenges of doing so.

This report generates lessons about strengthening the financial management of the nonprofit sector. Beyond that, however, it also generates interesting speculations about the relative usefulness of different types and levels of support for building organizations' capabilities, suggesting that in some instances less costly group learning interventions may be almost as effective as more expensive, customized versions. It also demonstrates the importance of strong organizational motivation and leadership in realizing change. The research did not explicitly measure how improvements in nonprofit financial management affected the quality of program services, but interviews with staff members from organizations in the initiative highlighted the benefits of good financial management to organizational and program planning and stability.

Gordon Berlin
President

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The evaluation for Strengthening Financial Management was funded by the Wallace Foundation. Ed Pauly, supported by Polly Singh, provided wise guidance throughout the project. Their deep knowledge of the after-school field and strong, consistent support for evaluation efforts was invaluable at all stages of the project.

Many thanks go to Fiscal Management Associates and the Donors Forum, the organizations that the Wallace Foundation commissioned to carry out the professional development and policy efforts at the center of Strengthening Financial Management. Staff members from both organizations were generous in talking with the evaluation team, sharing their visions and putting their work in context.

The first three years of this evaluation were conducted by staff members at Public/Private Ventures (P/PV). When the organization closed its doors in 2012, the project moved with the project director, Jean Grossman, to MDRC and was completed by MDRC and Child Trends staff members. The research team that completed the evaluation deeply appreciates the data collection done by researchers at Public/Private Ventures, particularly Laurie Kotloff (who led the implementation evaluation), Tina Kauh, Jennifer McMaken, and Debbie Mayer (who worked on the survey effort). Changing the research team midstream is challenging, and the high-quality set of interviews and surveys that Laurie, Tina, and the P/PV team created was critical in completing this report.

Many people at MDRC and Child Trends contributed to the project. Thanks go to Rachel Carney and Shawn Teague for the help they provided in analyzing the qualitative data. Camielle Headlam at MDRC led the thorough fact-checking of the document, created tables, and provided critical support as the report was compiled. We would also like to thank the reports' reviewers at MDRC and Child Trends, including Fred Doolittle, Natalia Pane, Karen Calloo, Jesús Amadeo, Anne Fenton, Michael Bangser, and John Hutchins. Their comments were very helpful in shaping the report. Joshua Malbin edited the report and enhanced its clarity, and Stephanie Cowell prepared it for publication.

Finally, we are grateful to the executive directors, chief financial officers, other financial staff members, and program managers from the 25 organizations that participated in Strengthening Financial Management. They met with researchers during interviews, completed lengthy annual surveys, and provided helpful information and insights about the project.

The Authors

Executive Summary

The Importance of Strong Financial Management for Organizations Serving Young People

Nonprofit organizations serving young people exist to provide meaningful opportunities for those young people to build their skills; experience positive, supportive relationships; and prepare for the future. No one would judge an organization's worth by its financial soundness alone, but financially unhealthy programs threaten an organization's ability to achieve its mission. Unfortunately, although they are critical to effective management, core organizational capabilities and effective administrative functions often are mistakenly perceived as peripheral to an organization's mission.[1]

To the contrary, good financial management is essential to effective youth interventions. First, it enables organizations to plan strategically: A clear understanding of the resources needed to serve program participants well serves as a guide to fund-raising efforts. It also provides information on the types of investments in an organization's core capabilities — management, support functions, and infrastructure — that need to be made to sustain program quality. Second, good financial management means organizations can deploy their resources thoughtfully. It enables them to predict the impact of changing circumstances, such as funding delays or shortfalls, and respond to them while managing their effect on program quality. This report examines what happened to a group of organizations that attempted to strengthen their financial management systems from 2009 to 2013.

The Current State of Financial Management

Good financial management is not easily achieved in organizations that often have grown organically out of community need, funders' compassion, and the passion and good ideas of people committed to bettering young people's lives. Indeed, weakness in financial management is pervasive across the nonprofit sector. The following problems were common among participating organizations at the beginning of the current study:

- **Staff members with less than optimal financial management skills, understaffed financial departments, and underdeveloped information technology (IT) systems** created inefficiencies in routine tasks. Staff members in organizations' financial departments often operated in crisis mode or were absorbed with daily tasks such as paying bills and responding to funder

[1]Though many organizations use the term "capacity," this report uses the term "capability" throughout.

requests, leaving long-term financial planning functions underdeveloped. This could potentially have serious consequences for organizational sustainability and efficiency.

- A **lack of transparency** regarding organizations' financial positions, and an absence of useful forecasts, meant leaders often could not make informed choices about program and organizational needs.
- **Incomplete understanding of the true costs of program delivery**, including the support functions necessary for high-quality programs, left those programs chronically underfunded.
- **Organizations' financial staff members operated in isolation,** with few connections to staff members who understood the resources needed to support and strengthen programs and who knew how to respond effectively to weaknesses.

The challenges that arise as a result of poor internal financial practices are exacerbated by certain funder practices. Funders place limits on allowable overhead that are often insufficient for organizations to manage programs well. Funding is often insecure, obtained through short-term contracts. And payments for contracted services may be late — sometimes many months late.

The Wallace Foundation Initiative to Strengthen Financial Management in Nonprofit Organizations

Recognizing these challenges, the Wallace Foundation — which has a long-standing commitment to improving the quality of services for young people — set up the Strengthening Financial Management in Out-of-School Time (SFM) project. The aim was to equip organizations with the ability to plan and manage their financial resources and increase their potential to deliver high-quality services, and at the same time to record lessons from the experience to aid the many organizations that face similar challenges. The foundation took a three-pronged approach:

1. Directly build the financial management capabilities of organizations serving young people.
2. Work with funders and policymakers to reform practices that strain the ability of organizations to manage their resources well.
3. Fund research into the project and inform a wide audience about the effects of this approach (or lack thereof).

Staff members from 25 organizations that provided a variety of out-of-school-time programs for Chicago young people participated in the initiative.[2] Their budgets ranged from $800,000 to $36 million, although most had budgets of $3 million to $8 million at the initiative's beginning. All fell short on some or many aspects of financial management.

The 25 organizations were divided into two groups based on the Wallace Foundation's assessment of the level of intervention they could undertake. From 2009 to 2013, Fiscal Management Associates (FMA), a consulting firm that works with nonprofit organizations and foundations to strengthen financial practices, provided all of the organizations with access to peer networking opportunities, and provided each of the two groups with one of two models of consulting and training. The two models varied in the amount and type of professional development assistance offered to the organizations involved. This report refers to the more intensive intervention as the "customized learning plus group learning" model (or "customized learning," for short), and refers to the other intervention as the "group learning" model. See Table ES.1 for a brief description of the models. Many of the activities involved the participating organizations' senior leaders, particularly the chief executive officers and chief financial officers (CEOs and CFOs), although other fiscal and program staff members participated when appropriate. Importantly, the professional development support provided mostly occurred during the first two years of the initiative. In addition to paying for that support the Wallace Foundation provided grants to the organizations to enable them to undertake the work, and the amount and timing of those grants also differed between the two groups of organizations.

FMA made a number of assumptions about what financially stable organizations require: First, organizations need to understand their financial positions on an ongoing basis, as efficiently as possible. Good financial software makes that possible. Second, having well-specified internal financial procedures ensures that all parties know what they need to do and when, with minimal redundancy. Third, in order to develop accurate, realistic budgets, an organization must calculate not only the costs directly linked to the delivery of program services (such as equipment and program staff salaries) but also the overhead costs of running the organization itself. Lastly, to make appropriate financial decisions, organizational leaders need information not only from financial staff members but also from program managers and others. Program managers are likely to know how and when to spend resources to maximize a program's effect, and if cuts need to be made, they are likely to know which will be the least damaging.

FMA designed its group learning sessions around these assumptions, providing guidance on how organizations could make their financial procedures more rigorous and systematic,

[2]Twenty-six organizations were initially selected to participate in the initiative, but one dropped out shortly after selection and was therefore excluded from the evaluation. Another closed due to financial problems in the initiative's penultimate year.

Strengthening Financial Management

Table ES.1

The Professional Development Models at a Glance

Component	Customized Learning	Group Learning
Financial needs assessment	Individual, on-site financial audit	Assisted self-assessment
Work plan	Developed in partnership with consultants	Self-developed
Individual coaching	In-depth	8 one-hour consultations
Primary staff focus of intervention	CEOs	CFOs
Frequency of peer learning sessions	Quarterly	Quarterly
Initial grant to organizations ($)	115,000	40,000
Follow-up grant to organizations ($)	0	25,000
Grant for cash reserves ($)	125,000	0
Median number of hours of professional development provided by FMA	704	183

SOURCE: Internal document on grantee characteristics provided by the Wallace Foundation.

ensure adequate controls on spending, involve staff members from programs in budgeting, acquire needed financial software, and create realistic budgets. The major difference between the models was the degree of customization. FMA consultants worked with the staff members from customized learning organizations, helping them design policies and procedures specific to their organizations. In some cases, they prepared customized manuals for the organizations' use. They also assisted organizations in assessing their staffing configurations, and they made specific recommendations about hiring. In contrast, the group learning model organizations received general advice and options in group learning sessions that they could then take back to their organizations. While the staff members from group learning organizations could discuss the advantages and disadvantages of various options with the FMA consultant during a one-hour phone call that followed each group learning session, and while the FMA staff could help them figure out how to address specific problems, the organizations had to make many more decisions on their own.

For the second prong of the initiative (the one focused on reforming funding practices), a Chicago-based organization, the Donors Forum, was selected to work with funders, state and city policymakers and officials, and organizations serving young people. Its aim was to identify barriers to effective financial management and set priorities among them, develop principles to guide decisions, develop and implement practical solutions to improve the way funders manage contracts, and build momentum for wider reforms in Illinois.

The Study and This Report

As the third prong of the initiative, the Wallace Foundation commissioned an independent evaluation of the extent to which the initiative achieved its intended results, and at what cost of money and effort. The foundation was committed to informing a wide audience about whether and how results were achieved, what challenges were encountered, and whether and how the challenges were overcome.[3] It also sought to inform a wide audience about the Donors Forum's efforts to improve the funding environment. To address these issues, the four-year study relied on information from interviews with CEOs and CFOs, conducted every 9 to 12 months for four years; annual visits to a selection of the organizations; and document reviews.

This report presents findings that should be of interest to practitioners, funders, policymakers, and the public. It examines the following questions: What forms of support do organizations need to strengthen their ability to manage their resources? What type of time commitment does this require from the organization itself? From consultants? What types of changes need to be made to funder practices, and how might those changes be achieved? When those changes have been achieved, how effective have they been? What lessons can the evaluation offer those who seek to strengthen the financial management of nonprofit organizations?[4]

Summary of Findings About the Professional and Organizational Development Models

- **The financial management practices of nearly all of the participating organizations improved over the course of the initiative.**

[3]The Wallace Foundation initially awarded the evaluation to Public/Private Ventures. When Public/Private Ventures closed its doors in mid-2012 due to financial problems, MDRC and Child Trends stepped in to complete the evaluation.

[4]In 2012, Public/Private Ventures published an early report on the progress of the initiative that presents an overview of the participating organizations and their financial management challenges, along with a summary of good financial management practices and early lessons from the first year of the initiative. See Kotloff, Lauren, with Nancy Burd, *Building Stronger Nonprofits Through Better Financial Management: Early Efforts in 26 Youth-Serving Organizations* (Philadelphia, PA: Public/Private Ventures, 2012).

Of the 25 participating organizations, all but 2 strengthened their financial practices in at least some areas, and improvements persisted beyond the first two years of intensive professional development. Meaningful changes were seen in a range of areas: improved financial skills; better — and better-used — computer systems; more useful internal financial reports and procedures; and more — and more effective — collaboration across program and financial divisions, which strengthened organizations' ability to create good budgets and monitor them effectively. Overall, organizations improved the quality of their financial decision making.

Nearly half of the organizations that received customized learning and nearly half of those that primarily received group learning improved in 80 percent or more of the areas in which they had been weak at the start of the initiative.

- **According to organizations' leaders and senior staff members, better financial practices led to better program planning and management, and to improved organizational stability.**

Executives and senior staff members reported a range of benefits from better financial management that directly affected their ability to pay for and deliver high quality services. For example, a better understanding of programs' real costs, combined with improved decision-making processes, better equipped organizations to evaluate funding opportunities, rejecting those that did not fully cover programs' true costs. Organizations were also better able to plan their program spending. Many organizations have predictable cash-flow cycles over the year, and having staff members from across an organization understand those cycles helped the organization better manage its cash flow. Executives also reported that as a result of improved financial management, their organizations were better able to respond to external financial pressures such as funding cuts or late payments, leaving them more stable in the long run. With one exception, SFM organizations weathered the Great Recession that began in 2008.

- **Multiyear professional and organizational support — combined with funding to purchase new financial software and to defray some of the cost of staff time — helped organizations achieve long-lasting change.**

It typically took two to four years for the organizations in SFM to lay the foundations for and build a new way to do business. Two years of involvement by expert financial management consultants enabled organizations to diagnose areas of need, develop work plans with ranked priorities, train staff members in good financial management practices, and implement their work plans. The median organization in the "customized learning" group received 704 hours of assistance from FMA, while the median organization in the "group learning" group received 183 hours. For both groups more than 90 percent of FMA's support was provided in the initiative's first two years.

This type of deep change required organizations to expend significant staff time (typically 800 to 1,000 hours over the course of the four years) and money ($30,000 to $60,000). The money was used to recruit new financial staff members, buy software, and pay for associated training. Taking into account the value of staff time, the full cost to each organization is estimated at $70,000 to $110,000. The unrestricted grants from the Wallace Foundation — $115,000 for customized learning organizations and $65,000 for the group learning organizations — enabled organizations to make the investments required to improve their financial management.

- **To succeed in achieving the aims of SFM, an organization's leaders needed to be motivated to change from the outset.**

When CEOs reported at the beginning of the initiative that they were strongly motivated to participate in SFM because it aligned with their organizations' needs and plans, their organizations made significant progress in all aspects of financial management. The reverse was true for organizations where strengthening financial management had not previously been part of their plans. Sustaining an organizational change initiative like SFM beyond an initial burst is not easy, and leadership quality — the ability to communicate the change, execute it, and adapt to emerging circumstances — was critically important for achieving rapid, deep, and long-lasting improvements. Ironically, the initiative's goal may have been helped by the harsh economic climate, which reinforced the need for better financial practices. Thus, despite the recession's adverse effects on organizations' finances, it may have helped sustain the initiative's momentum.

- **The financial practices of organizations receiving the group learning model of support significantly improved, though more slowly and not quite as much as those receiving the customized learning model, indicating that this less expensive approach was cost-effective.**

The customized learning organizations made slightly more progress than the group learning organizations, but the gains for the group learning organizations were still impressive, and those organizations received approximately a quarter of the consulting help and half the grant funds. While the financial practices of the customized learning organizations typically changed within two years, the group learning organizations took three or four years to achieve a similar level of change. This slower pace of change might have been in part because group learning organizations received their grant money in two payments, one at the beginning of the project and the second two years later. Organizations in the customized learning group received their grants at the start, which allowed them to make investments in financial staff members and software sooner.

Summary of Findings About the Policy Work

- **The second prong of the initiative, aimed at influencing funding practices, made some progress, but was slow to achieve results.**

The Donors Forum was successful in convening key stakeholders in Illinois; identifying major challenges facing the state's nonprofit organizations and setting priorities among them; and developing principles for moving forward. The initiative made significant progress toward streamlining contracting procedures, working closely with stakeholders to develop solutions. Along with major nonprofit organizations in Illinois, the Donors Forum supported legislation that would streamline human services contracting. It then went further by providing staff support to an interagency committee charged with putting the legislation into practice. As a result, the state created a cross-agency reporting database. Where previously organizations had to provide the same information (such as audits or letters demonstrating nonprofit status) to multiple agencies when submitting proposals, now they only had to provide that information once. However, organizations did not see this as a significant enough change, for two major reasons. First, the reforms only touched one set of funders — four Illinois State human services agencies — and the organizations still had many other funders with their own reporting requirements. Second, the more serious problem facing organizations with state contracts was late state payments, and little progress had been made on that issue at the time this report was written.

- **The most pressing funding problem facing the SFM organizations over the course of the project was late state payments. The Great Recession resulted in payments that were delayed by up to six months, and little could be done to speed them up.**

Although the Donors Forum recognized the challenges that late payments presented to grantees, it was unable to address the issue. Illinois, which had been accruing debt over a number of years and which had large unfunded pensions, was in dire financial straits. One of the ways it juggled its finances was by delaying payments. In Fiscal Year 2011 the state legislature lengthened the time the state could take to pay its invoices, further exacerbating the problem.

Implications

The Wallace Foundation's initiative casts light on the financial practices of organizations and on what can be done to improve them. If 25 well-established and respected Chicago organizations were struggling with financial management, it is highly likely that many more organizations across the country face similar challenges. Encouragingly, the initiative demonstrated that with a concerted effort it is possible to achieve significant and lasting improvements in financial management. Together with improvements in funding practices, these have the potential to strengthen program quality by permitting organizations to focus on programs instead of managing financial crises.

Implications for Funders and Consultants Who Support Organizational Development

- **Widespread weaknesses in organizations' financial management can have negative effects on their stability, planning, and programs. Good financial management is an important factor in facilitating and sustaining long-term improvements in program quality.** The organizations involved in the initiative all had strong reputations for providing high-quality programs, but it was clear that internal financial weaknesses plagued most. Opaque budgeting practices that did not include program managers left program staff members ignorant of their budgets, leading to over- or underspending. Organizations that did not understand how to allocate overhead costs accurately across programs faced budget shortfalls that affected program stability. Inefficiencies in financial procedures took up a lot of time for staff members already stretched thin. This initiative suggests that efforts to create change in financial management can be effective in achieving lasting organizational improvements. Improved program quality is not guaranteed when financial practices are strong, since high-quality programs require other important forms of support, such as good planning, reliance on evidence, high-quality program staff members, high-quality staff training, and activities that engage participants. But financial management provides critically important support.

- **In order to create lasting changes in their core administrative infrastructures, organizations need to work consistently for several years on strengthening their financial management.** Many initiatives to build organizational capabilities last only a short while, and there is little evidence that they work. It is important that organizations know how to change, but it is not sufficient; organizations also need time and resources. In SFM, changing organizations' financial management required changes in software, written manuals, and organizational practices, and each of these changes took time and money. Given that many of the changes were interrelated, it is unlikely that lasting improvement could be achieved in substantially less time.

- **Change in financial management requires widespread organizational change.** It is important to emphasize that the changes under SFM occurred because the initiative addressed multiple aspects of organizations' financial practices and multiple senior staff members. The effort focused on training senior leaders, including organizations' CEOs and CFOs, rather than only training more junior staff members. Organizational leaders were expected to support the effort, and the evidence shows that when they were motivated to do so, their organizations made more changes to their financial management that affected more areas: staffing structure, staff members' skills, accounting IT systems, the quality of financial reports, and internal decision-making processes. Not every organization needed to change in every area, but many needed changes in most areas related to financial management.

- **Unrestricted funding made possible the necessary investments of time and capital.** The amount of money required to create lasting change in an organization depends on the organization's size and needs. In this initiative, the Wallace Foundation's investments of $65,000 to $115,000 in direct grants covered staff time, software, and training. These costs will vary from place to place, since salaries vary across the country.

- **The group learning model was a cost-effective method of improving financial practices.** The grants provided to the group learning organizations totaled a little more than 55 percent of those provided to the customized learning organizations, and the former group received only about a quarter of the hours of assistance received by the latter. While the customized learning organizations demonstrated slightly larger changes, the group learning organizations also substantially improved. Achieving larger change faster is desirable, but it is possible to achieve meaningful change at a lower cost.

Implications for Organizations

- **Organizations interested in undertaking efforts to improve their financial practices should be prepared to spend between 800 and 1,000 staff hours on the work over two to three years.** Organizations involved in the initiative spent significant amounts of time on activities designed to strengthen their financial management, spread across multiple staff members.

- **An organization's top leader and its top financial manager must be involved in this work.** Without the motivation and commitment of the organization's top leaders, changes are hard to achieve. An organization's CEO must have a basic understanding of good financial management practices and the risks that organizations face if practices are lax. The CEO also needs to communicate the importance of the work, to maintain staff interest and commitment. And finally, it is the CEO who has the ability to oversee changes in staffing to ensure that good practices are adopted and that program and financial staff members work together. The CFO must also be involved in communicating the importance of the work to financial staff members, in ensuring that staff members get the training they need, and in overseeing necessary changes to software and policies.

- **Changes in software and manuals help sustain organizational change.** One of the challenges in helping organizations build their capabilities is sustaining those changes over time. In SFM, changes were made to manuals and software. Once such changes were made, staff members were trained in the changes and managers worked to ensure that they were adopted. The fact that the new procedures were built into software and written into manuals helped to sustain them over time. It appears to be especially challenging for organizations to maintain increased communication between financial and program staff members, so that change in particular should be written into organizations' policies-and-procedures manuals.

Policy Change: Supporting Changes in Practices for Public Funders

Influencing funder practices appeared to be an attractive route for reform, as such changes should logically benefit many organizations at once. However, the SFM initiative's experience revealed several limitations to the approach. First, in order for new procedures to generate tangible benefits, organizations and funders must learn and use them. Second, changes must affect a substantial portion of organizations' funding to be valuable to them. From an organization's perspective, is not enough to influence a single funder, particularly if that funder is not the organization's major source of support. Third, as is often the case with advocacy, change is slow to materialize. For these reasons, those seeking quick results in the financial management arena may find it more effective to focus on building organizations' ability to manage their finances, helping them to withstand adverse funding practices. And in fact the SFM initiative demonstrated a feasible way to do this, albeit a labor-intensive one.

Nonetheless, there is a limit to how much an effectively managed organization can improve its financial stability, given the existing funding environment. Thus it is valuable to pursue changes in funder practices alongside direct capability building, even though achieving such change will be a long-term endeavor requiring significant resources. The following sequence of steps worked well for the Donors Forum in its efforts to improve contracting practices in Illinois:

1. Convene key stakeholders, including organizations, multiple funding constituencies, politicians, and agency officials.

2. Define the problem, garner support for change, and define common principles of good practice.

3. Decide where to focus attention (for example, on specific issues or on types of funders), depending on what types of changes would benefit organizations most and on where change can be achieved.

4. Provide concrete solutions that respond to funders' needs.

5. When new legislation passes, provide support to help public agencies develop concrete plans to implement it.

While working in this way is useful, it may not lead to change in the highest-priority areas. Policy advocates need to find opportunities where change can be achieved.

Final Thoughts

Today organizations have to achieve more for less. Funders increasingly demand results but are not always prepared to cover the attendant core organizational costs. Given this climate, the Strengthening Financial Management initiative provides powerful and very encouraging evidence for organizations and funders alike. Organizations can strengthen their financial practices if they put in the time and make the needed investments. Funders who want to build the core capabilities of an organization or sector now have a blueprint for effective work.

About MDRC

MDRC is a nonprofit, nonpartisan social and education policy research organization dedicated to learning what works to improve the well-being of low-income people. Through its research and the active communication of its findings, MDRC seeks to enhance the effectiveness of social and education policies and programs.

Founded in 1974 and located in New York City and Oakland, California, MDRC is best known for mounting rigorous, large-scale, real-world tests of new and existing policies and programs. Its projects are a mix of demonstrations (field tests of promising new program approaches) and evaluations of ongoing government and community initiatives. MDRC's staff bring an unusual combination of research and organizational experience to their work, providing expertise on the latest in qualitative and quantitative methods and on program design, development, implementation, and management. MDRC seeks to learn not just whether a program is effective but also how and why the program's effects occur. In addition, it tries to place each project's findings in the broader context of related research — in order to build knowledge about what works across the social and education policy fields. MDRC's findings, lessons, and best practices are proactively shared with a broad audience in the policy and practitioner community as well as with the general public and the media.

Over the years, MDRC has brought its unique approach to an ever-growing range of policy areas and target populations. Once known primarily for evaluations of state welfare-to-work programs, today MDRC is also studying public school reforms, employment programs for ex-offenders and people with disabilities, and programs to help low-income students succeed in college. MDRC's projects are organized into five areas:

- Promoting Family Well-Being and Children's Development
- Improving Public Education
- Raising Academic Achievement and Persistence in College
- Supporting Low-Wage Workers and Communities
- Overcoming Barriers to Employment

Working in almost every state, all of the nation's largest cities, and Canada and the United Kingdom, MDRC conducts its projects in partnership with national, state, and local governments, public school systems, community organizations, and numerous private philanthropies.