FINANCE DIGITAL TRANSFORMATION FOR NOT-FOR-PROFITS

WHY NOT-FOR-PROFITS SHOULD DIGITALLY TRANSFORM THEIR FINANCIAL FUNCTIONS (AND HOW TO ACTUALLY DO IT)

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ABOUT THE AUTHOR

I am a former Executive Director of several not-for-profit organizations, and the founder and principal consultant of ReStructure Consulting, a niche consulting firm focusing on building the resilience of not-for-profit organizations so that they are better equipped to fulfill their mission. My work over the past 24 years has focused specifically in the not-for-profit sector by strengthening organizations through strategic planning, organizational restructuring, mergers, and turnarounds. I have also found myself increasingly passionate about the integration of finance and strategy in building resilient and sustainable organizations. In 2012 I decided to apply for the Certified Management Accountant executive program to strengthen my knowledge in corporate finance, and in 2013 I received my CMA designation. In 2014 I received my CPA, CMA designation upon the merger of the CMA, CGA and CA designations. Armed with my experience as a former Executive Director, knowledge and training in not-for-profit finance, and my 10+ years consulting, my goal is to advance the capacity of not-for-profit organizations through teaching, writing, consulting on organizational resilience and change.

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When it comes to leveraging technology to strengthen the quality of financial reporting and analysis, the not-for-profit sector has traditionally been late to the table. But as we enter this fourth industrial revolution where advanced technology is now affordable by not-for-profit organizations, there's been quick uptake of integrated systems that streamline data processing tasks and focus on financial reporting and analysis. Across every industry, internal systems have transformed. Everything that can be digitized – is being digitized. Digital tools automate transactional systems, weeks of manual data entry and processing is converted to hours thus shifting the focus on finance to analysis and strategic financial leadership. Technology is now faster, more accurate, and easier to use than ever. This transformation gives staff the data they need to make strategic, informed decisions and the time they need to focus on stewardship and resilience of programs.

This flip, from financial teams spending most of their time on collecting and collating information to spending most of their time analyzing that data to generate information and insights to steward the organization in the short and long-term, is the core of digital transformation. It enables benefits like more insights into the organization's financial position; revenue, expense and net assets trends, and short and long-term forecasting. Ultimately, digital transformation helps steward not-for-profits and support effective mission fulfillment.

Digital transformation isn't a matter of *if* — it's a matter of *when*. Anything that can be digitized will be. Accounting and human resources information systems are moving toward digitization to allow organizations to benefit from more efficient data collection processes so that they can focus their time on analyzing information to create insights that will strengthen strategies focused on program and organizational resilience. Technology now allows not-for-profit organizations to digitize bookkeeping tasks that are manual and transactional in nature.

While not-for-profits have a number of challenges to overcome, like limited resources (both time and money), digitizing bookkeeping tasks will be a key leverage point in transforming a not-for-profit organization. We're going to cover how to leverage technology to transform the finance function, the benefits and challenges of digital transformation efforts, review pathways to digitization and intelligization, and review the phases in a digital transformation project.

# THE STATE OF DIGITAL TRANSFORMATION FOR NOT-FOR-PROFITS

Currently, due to the accessible price point not-for-profits are starting to take advantage of digital tools that were once only affordable to our for-profit cousins. A recent study by Accenture indicated that 98% of directors[1] recognize that digital transformation will help their organizations and that over 80% of those who have undertaken digital transformation initiatives have seen significant improvements in their ability to steward their organization. As the price point for digital tools has decreased, the not-for-profit sector is starting to realize the benefits in adopting digitization.

At this point many finance-related processes within not-for-profits remain disconnected from each other. Expense management and payables; time and attendance, scheduling and payroll; donation receivables, tax receipting and the donor database; client data, case management processes and funder databases; funder reports and internal financial reports — all these systems collect data but are more often than not, challenged to integrate. Much of this data is managed manually through Excel spreadsheets that require that data is entered multiple times sometimes by multiple people – worse than that, sometimes by the same people - without the benefit of an integrated approach that digitizes the data and intelligizes the information.

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1   Source: Accenture Digital Adoption whitepaper (Link: https://www.accenture.com/t20170203T031808_w_/us--en/_acnmedia/PDF-42/Accenture-Digital-Adoption-Report.pdf)

Without digital finance tools finance staff are challenged to find the time to provide macro strategic financial leadership as the majority of their time is required to manage several manual data collection and entry processes. This fixates the time finance staff spend on micro data entry and leave them with no time to distill information from the data that will serve as decision support for short and long-term financial and strategic planning. For example, imagine this triangle represents all available financial staff time:

This is your available time
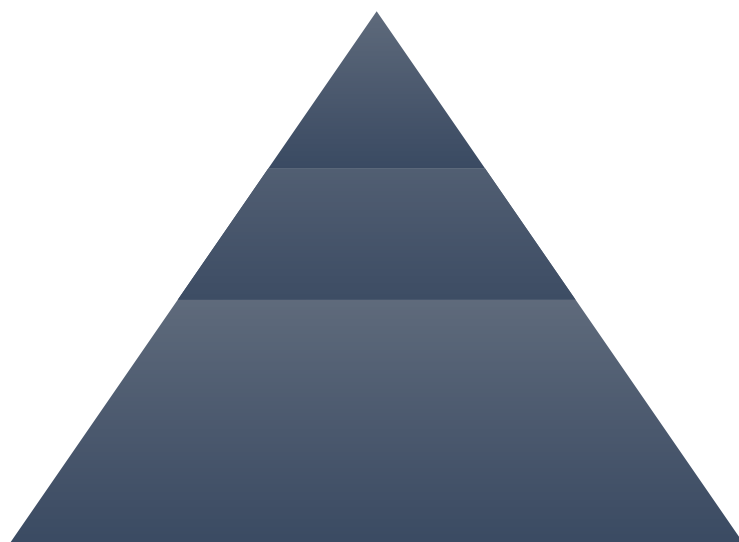
Many finance staff often spend the bulk of their time on bookkeeping tasks — gathering and processing the data they need to fulfill basic financial and funder requirements. Requirements like payroll, expense management, time-sheets, payroll, payables, reconciliations of multiple credit, food and gas cards and bank statements.

Even at the budget management level, many managers continue to rely on quarterly financial reports with insufficient time or monthly insight — resulting in Q4 and March Madness spending and overall ineffective budget management. Currently, the division of time and resources for finance often looks like this:

Current State - how time is often spent
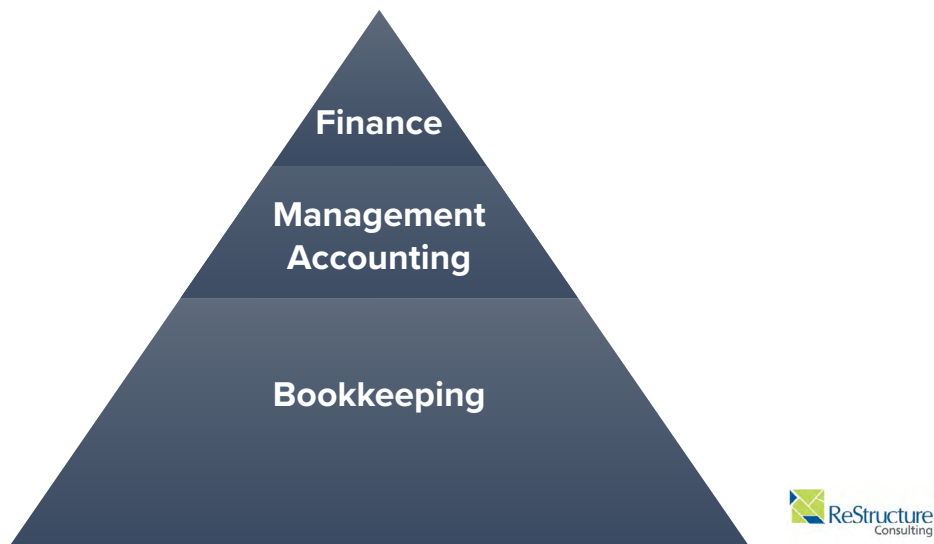
Because so much time is spent on the micro, transactional work at the bottom of the pyramid, it constrains how much time small finance teams can dedicate to analysis and strategy. Like analyzing financial data on current five-year trends, and providing strategic recommendations to leaders to strengthen the revenue, capital and working capital models. In short, finance teams are often spending most of their time on the micro – transactional tasks, manual data entry and very little of their time on analyzing the data to create information and build strategies based on knowledge.

Analysis and knowledge like:

- The current and long term financial position of the organization

- The quality of current funding and projections on required future funding

- Scenario and contingency planning

- 5-year revenue and expense trends for the organization

- True cost and bottom line (surplus, deficit or break-even) of each program and that trend over 5-years

- 5-year net asset (reserve) trends and the amount of general operating, capital, and working capital reserves required

CHALLENGE IS OUR CATALYST

B ut things are shifting. Not-for-profits are adopting digital technologies in order to fortify their financial reporting and analysis and distill the insights required to steward the organization.

Years of status quo funding, competitive fundraising, providing services and supports to more people, introduction of new programs and thus new funder reports, payroll and time-sheets, expenses such as insurance and utilities that increase on an annual basis, have all stretched not-for-profit organization's capacity to do more with less. Failing to invest in the capacity of the finance staff team to skillfully manage the rise in bookkeeping transactional tasks has backfired for many not-for-profit organizations.

What's more, outcome and performance-based funding is now commonplace, *funding disintermediation such as individualized and passport funding* — where funding bypasses the organization and goes directly to the individual and static funding levels are beginning to have a negative impact on the sector. There are real pressures to understand the true cost to deliver a program per service recipient, the true cost of each program, and ensure access to real-time cash flow forecasts and budget reports. All of this takes time that finance teams often cannot find as they busily produce funder reports and spend time on manual bookkeeping tasks.

Organizations that neglect financial analysis are challenged to remain as sustainable entities with quality programs during these times. Simply put, not-for-profit organizations can no longer afford to focus the majority of the finance team's efforts on manual processes when the need for financial planning and analysis is so critical.

Throw in the fact that changing demographics mean that more and more of the workforce is going to be comprised of millennials and digital natives who have no interest in using manual and time-consuming processes in Microsoft Word or Excel to complete their time-sheets, vacation requests, and expenses. An eye-opening fact when you consider that by 2025[2], 75% of the workforce is estimated to be millennials or *younger*! Are you ready for this disruption?

These changes in funding, demographics and changes in technology have created an environment where it is now imperative that not-for-profits maximize the time and leverage technology to transform the finance function and strengthen the resilience of programs and the organization.

2   Source: Forbes (Link: https://www.forbes.com/sites/workday/2016/05/05/workforce-2020-what-you-need-to-k-now-now/#5580b0822d63)

WHY DIGITAL TRANSFORMATION?

D igital transformation helps not-for-profits in two key ways. First, by shifting time spent from manual bookkeeping tasks to analysis, and second by allowing the organization to discover insights that lead to stronger planning and strategies built on foresight.

SHIFT TIME FROM MICRO MANUAL DATA TRANSACTIONAL PROCESSES

When organizations apply digital tools to finance, they automate and streamline micro transactional processes. This flips where staff can focus their time:

By digitizing bookkeeping tasks, micro transactional processes suddenly take less time. And since analytics and dashboarding are part of the digital transformation package - conducting meaningful analysis that can be understood by the non-finance staff or board member - becomes fast and easy.

These work together to create the time financial teams need to Intelligize and steward their organizations, see trends, and apply corrective strategies. Organizations can spend time to understand:

▌Which programs produce a surplus, deficit or break-even using true cost accounting

▌The organization's current revenue model of the organization and the quality of the revenue sources

▌The organization's current capital model (think unrestricted liquid net assets not property and equipment) and whether there are sufficient unrestricted liquid net assets in the reserves

▌An analysis of the reserves including the general operating (rainy day), capital (now think property and equipment) and working capital reserves

▌An analysis of the quality of potential new funding sources

▌The long term projections of funding sources and their impact.

By allowing more time to engage with strategic thinking, not-for-profits can improve financial and strategic planning and create opportunities to put their energy where it's most beneficial.

DATA — INFORMATION - KNOWLEDGE

T he second core benefit of digital transformation is shifting more time to data analysis which creates information that leads to strategies based on knowledge. This usually emerges in the middle tier of the triangle, during analysis informing strategic financial leadership.
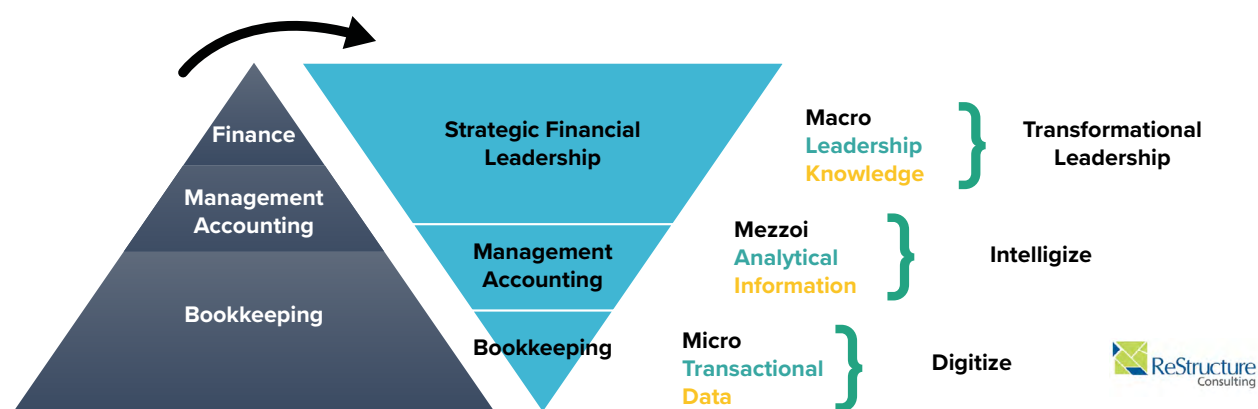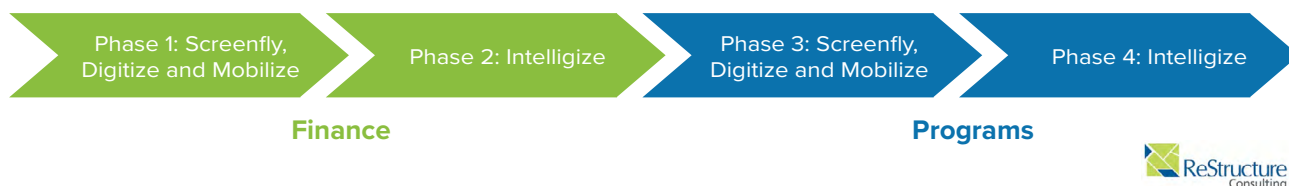

When 'business intelligence' is available, organizational strategies are strengthened.

For example, Jane Zhang, Executive Director of TechSoup Canada reports that her organization uses data from members to inform content creation. By tracking what information TechSoup members are asking about, TechSoup is able to focus on providing information that match the specific topics members need.

Finance digitization projects are often the entry-way to digitization and a fertile test ground to assess digital readiness before moving on to more complex client and program digitization projects.

Mega-Shift transformation pathway for many NFPs

| Phase 1: Screenfly, Digitize and Mobilize | Phase 2: Intelligize | Phase 3: Screenfly, Digitize and Mobilize | Phase 4: Intelligize |

Finance   **Programs**

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PHASE 1: SCREENIFY, DIGITIZE, AND MOBILIZE

The first step towards digital transformation is often in finance. Solutions like payroll, time and attendance, scheduling, expense management, and EFT for payables are often the first steps towards creating a digital organization.

PHASE 2: INTELLIGIZE

After digitization organization's realize that they can begin to benefit from the intelligization of data. This is the second phase after digitization. When organization's *intelligize* data they are creating business intelligence and insights that serve to strengthen strategies. Upon digitizing finance data organizations are more ready to prepare financial dashboards that provide and analysis on current financial performance, financial trends, and highlight financial strengths and vulnerabilities. Providing this level of intelligence and in visual formats bolsters discussions regarding program and organizational resilience among the Executive Director and board of directors, easily.

PHASE 3: SCREENIFY, DIGITIZE, AND MOBILIZE

This is when the excitement from digitizing finance data starts to spread to client and program data digitization. This is often when not-for-profits start to apply client and program data in the to better understand client needs.

PHASE 4: INTELLIGIZE

The act of digitization again fosters business intelligence, but this time it is focused on client and program strategic analytics. Analytics provide insights into describing and predicting client needs and prescribing supports in the community that can assist. This collective data can also lead to broader analysis of how not-for-profits contribute to the economy through economic value analysis and can be leveraged to drive social change at a policy level.

REAL BENEFITS

So by synthesizing data from different sources, not-for-profits can gain insights that help them better understand and serve their clients. For example, by digitizing financial processes, not-for-profits can:

» use financial teams' time more efficiently and prioritize energy on long-term strategic thinking and trend analysis

» gain better insight into current and emerging trends in funding and donations by source

» proactively and strategically manage expenses during the year

» spend more time proactively and strategically managing their budget during the fiscal year

» ensure that the benefits of financial leadership are felt by the Board, Executive Director, and Program Managers. They will benefit through greater financial clarity and more robust analysis that will lead to strategic stewardship of the organization.

REAL CHALLENGES

Despite the fact that the need to digitize has firmly bedded down in not-for-profits, some organizations are still challenged to modernize their financial processes. Challenges like securing buy-in, budget, time, resources, and overcoming organizational anxiety over the thought of investing in the organization's infrastructure and systems tend to slow down the uptake of digital tools. These challenges are at times compounded by misconceptions of ROI, leadership, and internal resistance to change.

AFFORDABILITY AND RETURN ON INVESTMENT

With changing (and often, dwindling) funding, budgets are stretched to a breaking point. Leaders, budget managers, and even the finance teams who will benefit the most are sometimes the most reticent to invest in infrastructure and systems.

THE SOLUTION

The problem is, this line of reasoning doesn't account for the opportunity costs of managing with more insight and foresight to steward each program and ensure resilience in the short and long term. Manual systems use a tremendous amount of staff hours to complete processes that could be automated and thus free staff time to focus on analysis of this data.

Data
Micro
Transactional
Bookkeeping

Information
Mezzo
Analysis
Accounting

Knowledge
Macro
Knowledge
Finance

ReStructure
Consulting

For example, for Jason Shim, Director of Digital Strategy at Pathways to Education Canada, digital transformation became a necessary step to scale the organization's internal processes. Pathways Canada was managing all of their alumni processes using spreadsheets. But spreadsheets are clunky, and they realized that eventually, it wouldn't be plausible to manage long-term engagement for thousands of alumni with Excel: the amount of manual manipulation required rendered it unfeasible.

> "WE WOULDN'T BE ABLE TO GET TO OUR GOAL IF WE DIDN'T AUTOMATE HOW WE WERE MANAGING THE DATA"

That same challenge is played out across not-for-profits everywhere. Unlike Pathways to Education Canada though, the full cost and negative implications of manual processes is usually underestimated. To determine if a digital solution makes sense, not-for-profits need to calculate how much time manual processes in bookkeeping take on a monthly basis and consider how else that time could be spent. What's the opportunity cost of spending time on manual data entry and aggregation?

Organizations are now seeing the benefit of analytics and intelligization and adopting digital tools to streamline manual bookkeeping tasks and even shifting job titles of finance staff to include titles such as: Director, Finance and Analytics, and Financial Analyst.

Second, not-for-profits need to consider the value of having staff focus on financial strategic leadership and data analytics / intelligizing tasks. What's the opportunity cost of having financial teams focus on a task that could be completed automatically, and what information isn't being discovered because of this focus?

Finally, not-for-profits need to consider the value of having fast, visual, integrated, and real-time data on their financial health, and how this would impact their ability to assess funding opportunities and the financial position of each program. With this data, organizations can think strategically about what they do and how they do it, and use that data to streamline the funding application processes as well as drive efficiencies in their program offering.

CHAMPIONS AND LEADERSHIP

The second major challenge facing digital transformation in not-for-profits is engaging staff at all levels in digital transformation projects and ensuring that leadership sustains the process from ideation to launch.

Leadership may also tend to suffer from functional fixedness — some view finance from a purely transactional lens, and they may not see the big picture or benefits of digitization. I have often seen Executive Director's remove themselves from discussions regarding updating, upgrading, and integrating accounting systems as they are unaware of the options on the market and the benefits that can be realized from digitizing and intelligizing.

THE SOLUTION

The first step towards overcoming these challenges is for finance leaders to share the leadership role with the Executive Director. The transformation champions need to educate themselves and others on the benefits of digital transformation both in terms of cost savings of reducing manual processes, and the benefits of making data-informed strategic decisions.

What's more, the digital transformation champions need to be just that — the champions. Because transformation projects impact so many processes of an organization, staff at all levels must be engaged in identifying the needs for digitization. The leader needs to be there to secure stakeholder and staff buy-in and cheerlead the project during and after implementation, as well as listen to staff feedback and adjust accordingly.

Of course, this requires a significant amount of time and effort. It's important that whoever is appointed has additional support to continue their normal work to give them the space to manage the project well, and it's important to build these staff hours into the cost of any digital transformation project.

INTERNAL RESISTANCE TO CHANGE

O ften times people are resistant to change because they have used the same methods for so many years that they question the need to change. They may be distrust new technologies, and are unaware of the benefits to digitization.

Staff are sometimes unwilling to relinquish the control that that comes from manual systems. This is especially true when significant time is spent in Excel.

Of course, this problem is compounded by the fact that many not-for-profits have been burned by digitization efforts in the early days of technology. Quickly adopting systems that weren't suited to their needs, not localized and that didn't have servers that resided in their country. The technology was difficult to use, and they selected systems without adequate training from here-today and gone-tomorrow small operators. This is what has have given many employees a healthy dose of skepticism.

THE SOLUTION E = T X P

The effectiveness of the solution (E) is based on the quality of the technical solution (T) and people's acceptance (A). The solution must be perceived by internal stakeholders to represent a quality solution to the organization's needs and garner sufficient staff acceptance in order to be accepted. Part of leading the digital transformation project, is spending a significant amount of time consulting staff members about their challenges with specific finance and human resources administrative tasks. There needs to be an organizational-wide understanding of the needs that non-finance staff members face in managing their time-sheets, expenses, schedules, requesting vacation time, accessing a database and producing relevant and timely reports, etc.

Second, leadership needs to budget time and resources for training and support as well as allowing time for the system to evolve before expecting to see results. According to Peter Frampton, the Executive Director at The Learning Enrichment Foundation, digital transformation projects can take a couple years before the benefits start appearing.

It's also critical that digital transformation projects are not just about adding a new tech tool to the toolbox. They represent a cultural shift for not-for-profits as well as a technological one, and leaders need to be aware of that and engage with staff from the beginning of the process consistently to the end.

DIGITAL TRANSFORMATION PROCESS

So what does this actually look like? How can not-for-profits embrace digital transformation in finance and other core internal systems? While it might be nice to envision a world where organizations can tackle every manual process, seamlessly, all at once and preferably over a weekend, that's not the reality. In reality, digital transformation will by its nature happen in a more piecemeal way, replacing the financial system one year and the HRIS system the next. Over time, systems improve, integrations become easier, and data sharing becomes the norm. Digital transformation becomes continuous improvement.

STAGE 1: IDENTIFY RELEVANT DRIVERS

Understand where the pain points exist within your organization, and be clear about what needs to be changed. What's driving the need for change? What inefficiencies need to be fixed? What administrative tasks do non-finance and finance staff complain about the most? How could time be spent if these administrative tasks were automated?

For example, prior to undergoing a financial transformation project, Jane Zhang from TechSoup Canada had to pull together annual budget reports manually from multiple different spreadsheets — a mammoth and time-consuming task. It became so complex at one point that she had to add more RAM to her computer in order to process all the data sources that she needed.

So the first step is uncovering those low hanging fruit processes — what takes a long time, and is ripe for automation and produce an immediate big win? Then, clarify how it needs to be different or what needs to be changed. Consulting with your front line staff is critical not only to prioritize needs, but to ensure their buy-in throughout the process by creating shared-ownership of the solution together.

STAGE 2: IDENTIFY OPPORTUNITY

Next, identify opportunities where existing technology can help solve pain points, and research what technologies in particular can be used. Peter Frampton, from Learning Enrichment Foundation, recommends looking at both profit and not-for-profit organizations to see what tools they're deploying and how they're deploying them. It's unlikely that an organization will have a completely unique problem. If one person is experiencing it, it's likely others are too.

STAGE 3: FORMULATE THE GENERAL STRATEGY

Digital transformation needs to have a guiding strategy. Ideally, this is a long term plan for how an organization is going to shift existing processes into digital ones over time, and how those various systems are going to integrate and work together to achieve staffing, data, and program efficiencies. Then, every system has its own micro-strategy that fits within the broader organizational framework.

STAGE 4: DESIGN THE SPECIFIC IMPLEMENTATION

Next, identify and design the specifics of implementation. Again, consulting with staff is critical to ensure this stage grounded and reflective of the most pressing needs of the organization. Working with both service providers and users will ensure that the specific implementation does what it needs to do and will minimize the time it takes to go from start to launch.

STAGE 5: TEST AND IMPLEMENT

Implement! This is when organizations actually deploy their new digital system, and is often the most difficult stage of all. A common pitfall to assume the work is done at this stage. In reality, it's just the start, problems that were never envisioned will inevitably occur, new requirements will emerge, new support, documentation, and training will be required. It's important to gain input from staff to ensure that there is an effective and timely feedback loop. It's also important to budget time and a contingency budget for testing and re-testing.

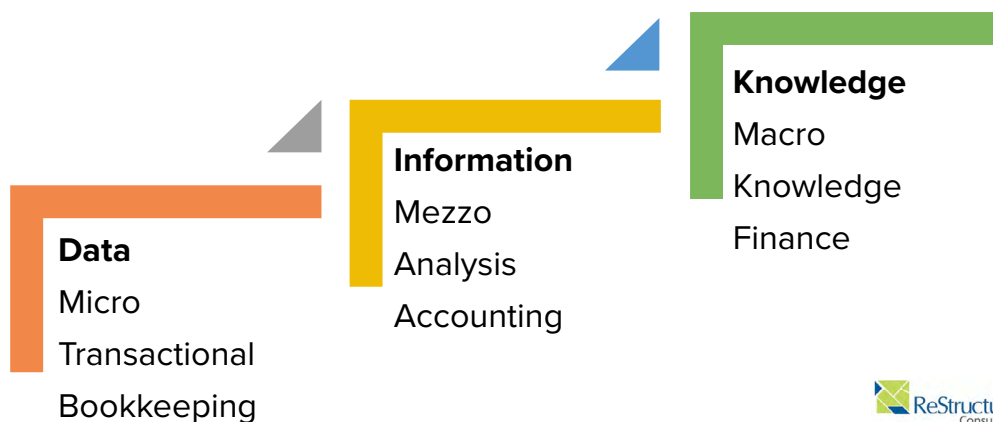## STAGE 6: MONITOR AND OPTIMIZE

Finally, it's critical to monitor your new solution and optimize it progressively over time. This might be integrating it with more systems, automating more and increasingly complex tasks, or redesigning processes to better use the full capabilities of the new system. Then, it's rinse and repeat as you move on to the next digital transformation project.

CONCLUSION

D igital transformation has the potential to not only transform the finance function but to also transform organizations and allow them to move beyond micro and manual bookkeeping tasks to macro knowledge-oriented strategic financial leadership.

What's more, increased funding reporting requirements, increased number of programs and staff members and a demand for business intelligence and evidence are all contributing to the push for not-for-profit organizations to digitize and intelligize.

FOR NOT-FOR-PROFITS, THE TIME TO CHANGE IS NOW.

Data
Micro
Transactional
Bookkeeping

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Mezzo
Analysis
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Knowledge
Macro
Knowledge
Finance

ReStructure
Consulting

DIGITIZE TO INTELLIGIZE: Transforming how finance teams spend their time allows energy and resources to be focused on financial analysis, planning and stewardship

INTELLIGIZATION: Digitizing bookkeeping functions facilitates a process where financial intelligence is attainable with the same amount of overall time by your finance team

INSIGHT TO FORESIGHT: Enhanced intelligence and visualization tools allow more effective insights into short and long-term strengths, vulnerabilities and trends in revenue, expenses and net assets which serve to strengthen strategies for organizational resilience and forecast into the future.

Over time, these benefits translate into stewardship and impact. Not-for-profits that are able to secure funding or invest in digital transformation with deliberate leadership, allocated time and resources will benefit from the foresight that digitization can bring.

Digitize to intelligize and take insights to create foresight.

Onward and upward!

ABOUT SPARKROCK

It started with a simple idea.

We wanted to help social benefit organizations leverage technology in order to more effectively deliver on their mission to improve the quality of life for people, families, and communities. Now, over a decade later, we still deliver on that idea every day.

We provide Finance, Workforce Management, Payroll and Employee Scheduling software for Nonprofits, Human Services Agencies and K12 School Boards. Built on the robust Microsoft platform, our all-in-one solution is fully integrated for a seamless experience. However, it can be rolled out in modules over time to be flexible with the budget and timelines that organizations in this industry are routinely faced with.

Our software reduces the administrative burden of manual processes, reduces the risk of multiple disparate systems, and makes it stress-free to create the reporting needed for funders and government. We are your partner in Digital Transformation.

Learn More at www.sparkrock.com

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Fuel Good Magazine: A journal for Nonprofit Executive Leaders

Does your Human Services Organization need a Digital Transformation?

Overtime – The Silent Budget Killer

The True Cost of Manual Processes