Nonprofit Finance Study

The dynamics and challenges of growth.

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A deep dive into **nonprofit finance.**

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Overview: Why care about this study?

We live in a rapidly evolving world that inevitably leads to challenges and opportunities for growth. For nonprofits, managing growth becomes a balancing act of preparing for and evolving with growth in every area of the organization – from funding and operational overhead to technology and risk management.

So, how are nonprofit finance professionals thinking about their organizations' growth these days? Is their perspective changing? How are they preparing for and handling growth? What do they see as their biggest challenges?

These are just some of the questions we set out to answer in this study. A chosen few of the questions were repeats from a similar survey we conducted in 2017, allowing us to see what, if anything, has changed in the past year. Others offer a new perspective.

What we found is that some aspects of growth haven't changed much:

- Nonprofits still anticipate growth in the next year and beyond.
- They're still looking for new ways to generate revenue.
- They're still at least somewhat confident in their ability to manage risk as they grow.

But, we also discovered some shifts, including:

- Less reliance on government grants.
- A need to be more transparent with funders as the organization grows.
- A focus on purchasing new technology and moving to the cloud.

Our surveys were conducted between July and August, 2018. We asked questions of 321 nonprofit finance professionals across nearly every vertical – including social services, education and healthcare. In some instances, we break down the response data in this report to show how perceptions vary by generation and organization size. All demographic data is based on at least 50 interviews, except for Millennials (N=37) and organizations with 501+ employees (N=35).

So, what do your nonprofit finance peers think about the dynamics and challenges of growth today?

Here is what **we learned.**

Key findings

1. **When nonprofit professionals talk growth, they most likely mean increasing services.**
About half (50 percent) see providing more services as the hallmark of growth, followed by taking in more revenue (39 percent).

2. **Growth is expected.**
About four-in-five organizations (79 percent) expect to grow very much (16 percent) or somewhat (63 percent) in the next 12 to 18 months.

3. **Growth doesn't just happen – it's planned for intentionally.**
Three-in-five (61 percent) hold formal planning sessions on strategic growth. However, while the vast majority believes their organization does budget planning well (59 percent agree), just two-in-five say following up to track progress (39 percent) is a strength of their organization, suggesting a need to establish metrics for success and a process for tracking progress against the plan.

4. **With growth comes anxiety.**
Three-quarters say when their organization grows, they worry about their ability to maintain funding, including 32 percent who say they worry about this very much.

5. **With growth comes change.**
As organizations grow:
    - 61 percent say they have to become more transparent with funders;
    - 44 percent have to change the way they report to funders; and
    - 28 percent have to report to funders more frequently.

6. **The integration with IT for a growing organization is interesting and complex.**
A majority (53 percent) say "managing technology needs" is harder to execute in a larger organization, and nearly half (49 percent) say the same for "ensuring security of data."

7. **Online security and IT needs require solid solutions.**
Seventy-one percent say ensuring online security is a moderate or major challenge in a growing organization, and 66 percent say the same of meeting employees' IT needs.

8. **Nonprofit finance professionals are not confident that their technology will keep up with growth.**
Only 5 percent believe it is "very easy" to make sure technology meets their organizations' needs as they grow, and only 36 percent say "somewhat easy." Fifty-five percent say this is somewhat (45 percent) or very (10 percent) difficult. One-in-four (22 percent) lacks confidence that their organization's current technology can meet their needs as the organization grows.

Section 1: The outlook on growth

In our 2017 Finance Study: Managing Growth, we asked nonprofit finance professionals what growth means to them. We asked the question again in the 2018 survey, and received similar responses.

Nonprofit finance professionals tend to mention increasing services, followed by revenue and programs, when explaining what “growth” means to them. Nearly half of those surveyed in 2018 mention expanding services or branches as what is meant by growth. Respondents mention increases in revenue, individuals served and funding further down the line.

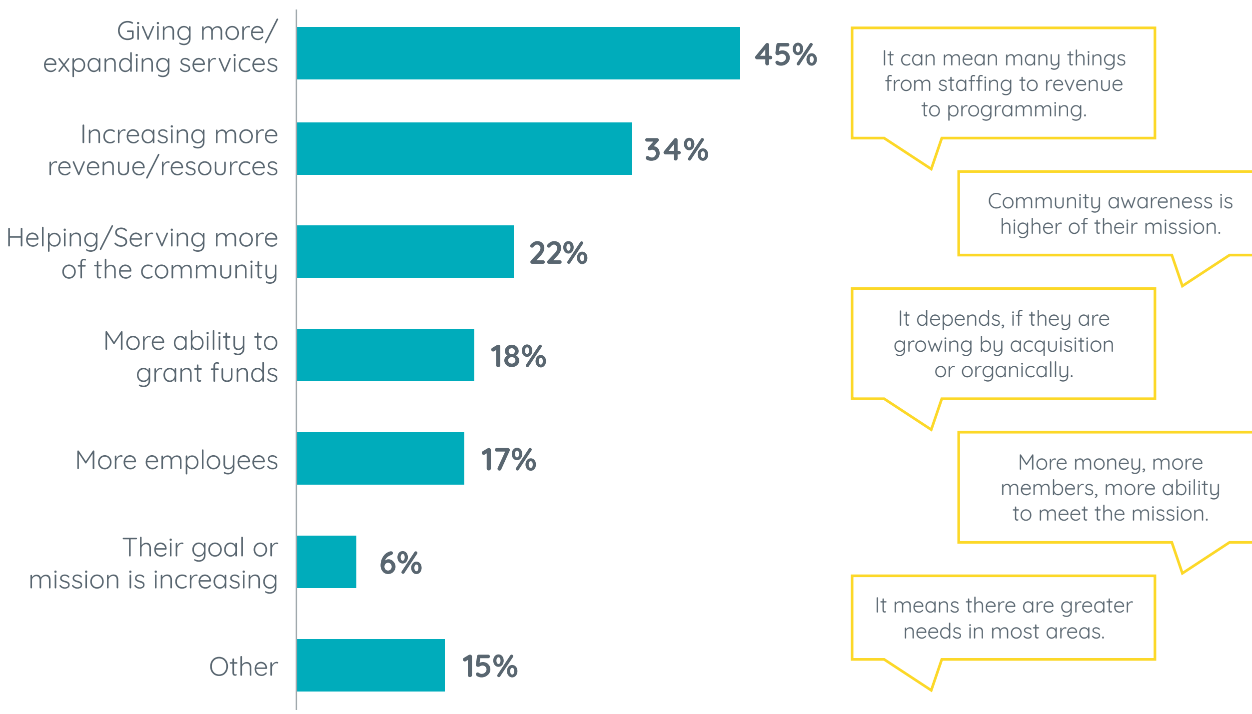


Figure 1: When you hear someone say that their nonprofit is growing, what does that mean to you?

Similarly, when given several options, half of those surveyed mention that providing more services is the best indicator of growth. It's interesting to note that when responses are broken down by generational groups, Gen Xers and Baby Boomers are more likely to say that services are the best indicator of nonprofit growth, while Millennials are evenly split on whether services or revenue are the best indicators of nonprofit growth.

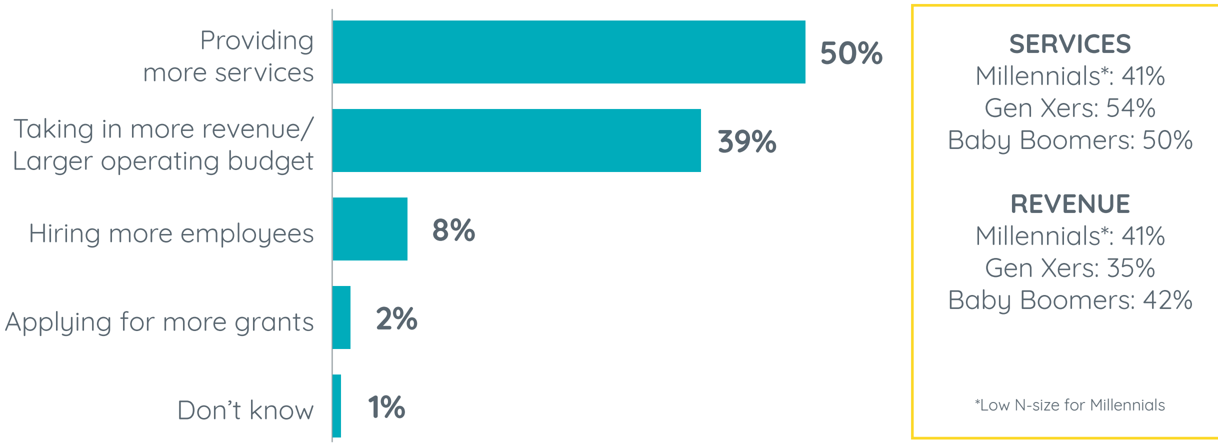


Figure 2: Though all of these are related to growth, which ONE do you think is the best indicator of whether a nonprofit organization is growing? (**RANDOMIZE**)

Just as the definitions of growth and growth indicators remain relatively unchanged, nonprofit finance professionals continue to anticipate growth. In both 2017 and 2018, around four-in-five respondents believe their organization will grow in the next 12 to 18 months – though most say they will grow "somewhat" as opposed to "very much." Just 5 percent expect to contract.

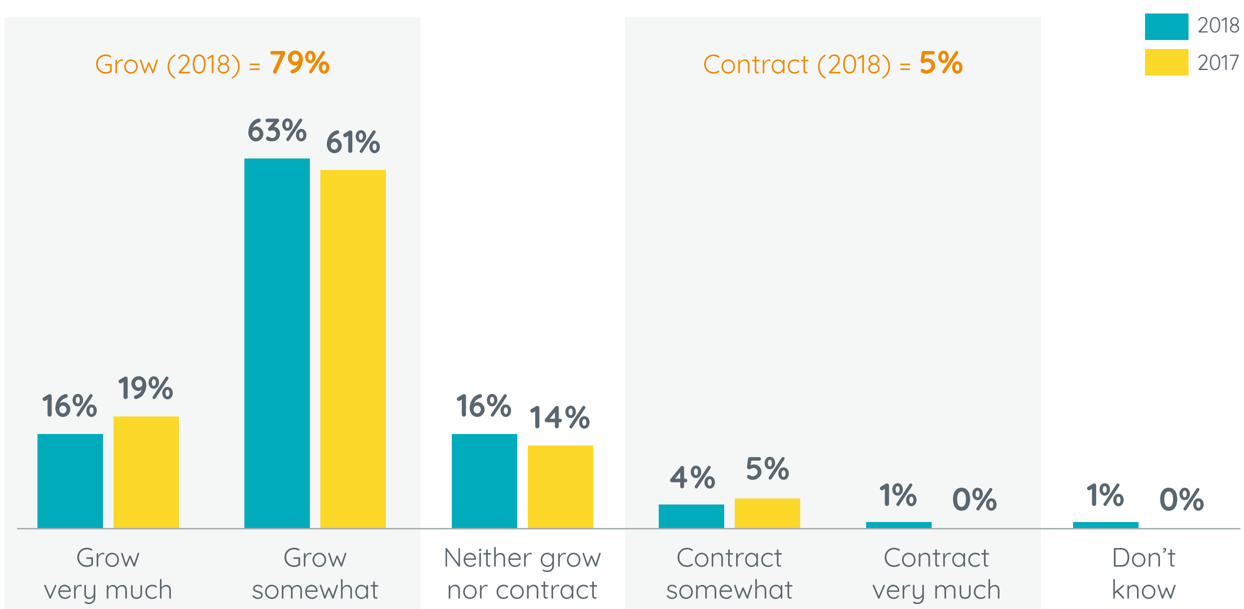


Figure 3: Which of the following comes closest to describing how you think your organization may or may not grow over the next 12-18 months?

As in 2017, more than half of respondents are planning to look for new ways to generate revenue for the remainder of the year.

However, nonprofit finance professionals are considerably less likely to increase fundraising efforts or apply for new grants than they were in 2017. It's important to note that the 2017 survey was fielded in May, and the 2018 survey was fielded in July and August, which may indicate that fewer organizations plan to apply for grants and increase fundraising efforts by the time they reach the end of summer than they do in late spring. However, looking for new ways to generate revenue is not necessarily season-dependent.

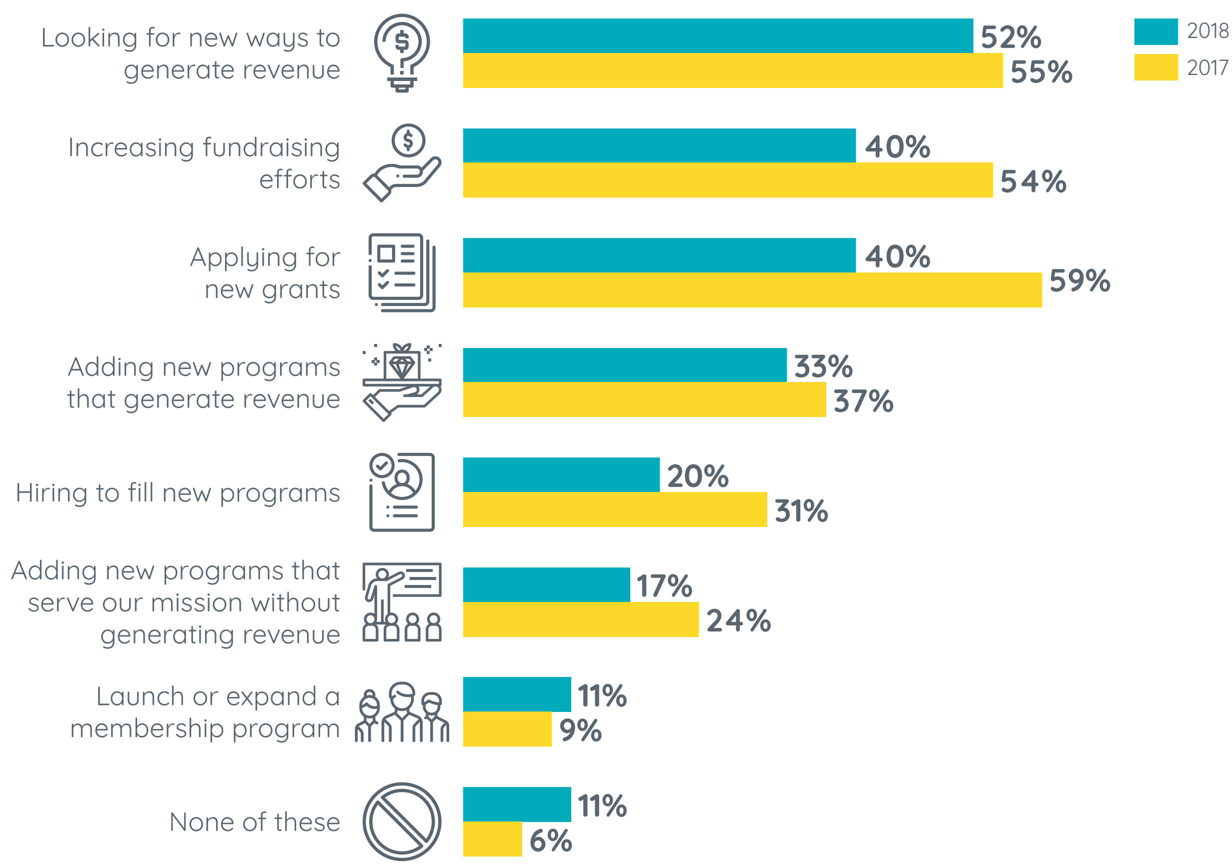


Figure 4: Which of the following are you expecting to do for the remainder of this year? (**RANDOMIZE**) Select any that apply.

When looking at the same activities by organization size, nonprofit professionals at organizations with more than 500 employees are considerably more likely to look for new ways to generate revenue, add programs that generate revenue or enhance the mission, and hire to fill new programs.

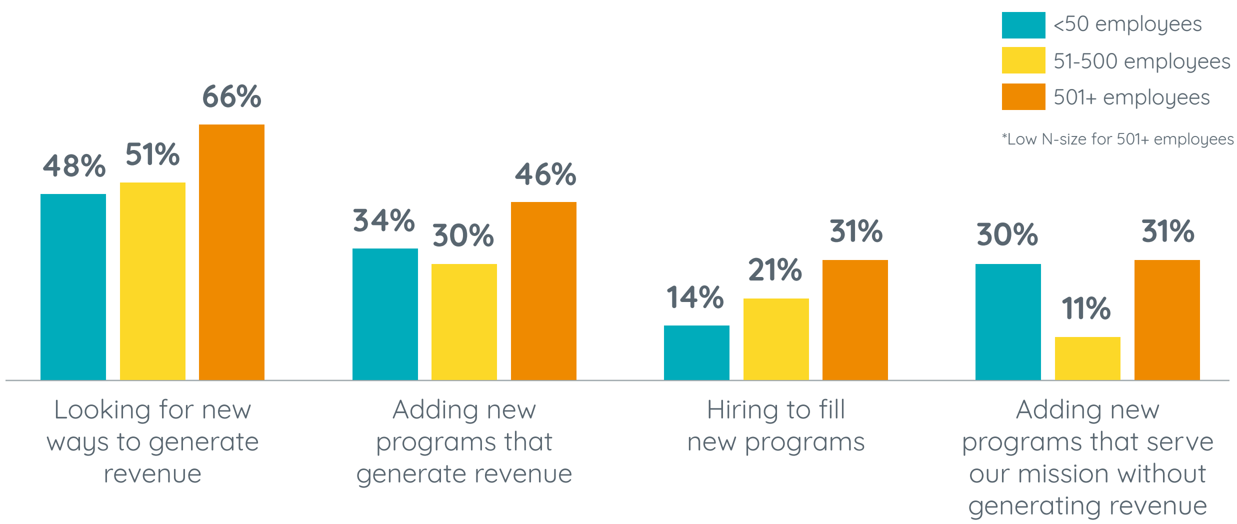


Figure 5: Which of the following are you expecting to do for the remainder of this year? (**RANDOMIZE**) Select any that apply.

Considering the outlook for continued growth in nonprofit organizations, it's perhaps not surprising that close to two-thirds of nonprofit finance professionals say their organizations had an increase in operating budget this year – compared to 54 percent who said the same the previous year. It's interesting to note that in 2017, there was a 17-point gap between those who said their number of grants applied for was the "same" versus "larger/more," and that gap narrowed to just a five-point gap in 2018. This shift points to a possible slowing down in the number of grants applied for.

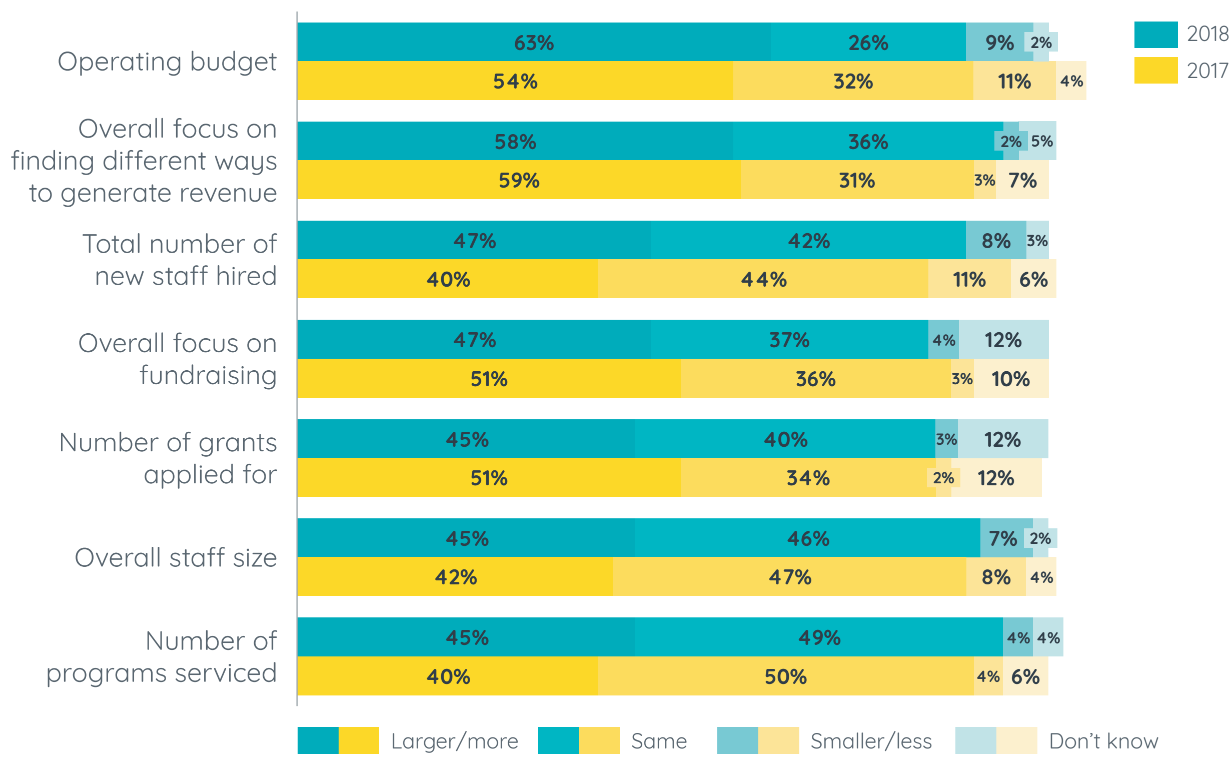


Figure 6: For your organization, please indicate whether each of the following was smaller, the same size or larger in fiscal year 2018 compared to fiscal year 2017. (Keep in mind that all responses are completely anonymous and will only be reported in the aggregate.)

When it comes to planning for and responding to growth, nonprofit finance professionals tend to have an even approach. A majority of respondents describe their organization as growing, both proactively and in reaction to the needs of their community.

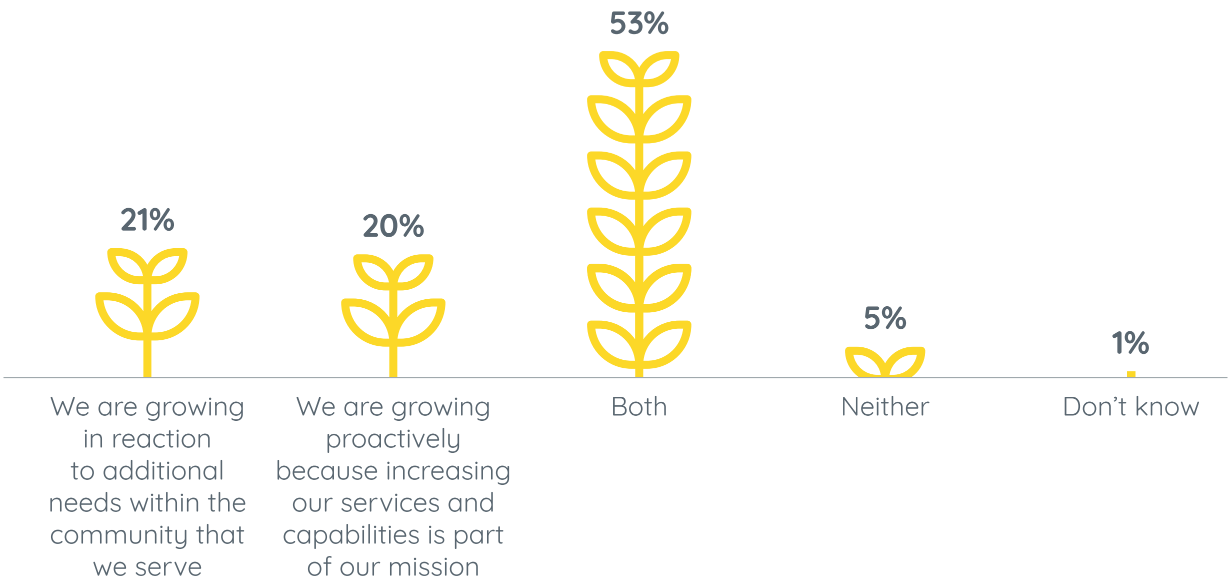


Figure 7: **AMONG THOSE WHO SAY THEY EXPECT THEIR ORGANIZATION TO GROW:** Which of the following better describes the way in which your organization is growing?

At the same time, about three-in-four nonprofit finance professionals say they hire new employees after organizational growth, rather than hiring new employees to enable growth.

So, while nonprofit finance professionals view growth in terms of services and revenue, and while they tend to grow both proactively and in reaction to the needs of their community, organizations typically wait for growth to occur before hiring new employees.

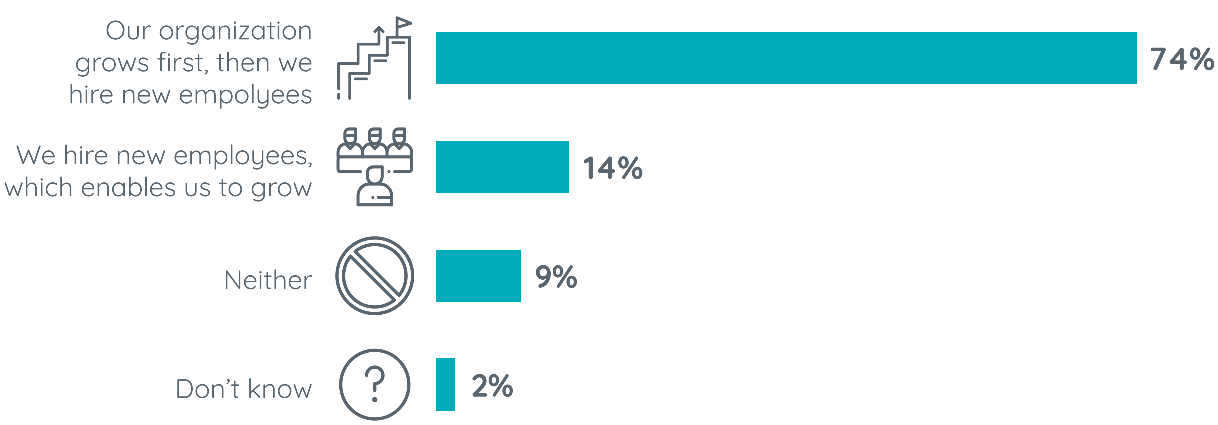


Figure 8: Thinking about growth and hiring, which of the following happens more often?

The majority, 61 percent, holds formal growth planning sessions with their team. Most say these meetings work well for budget review and roadmap planning. However, of those who hold formal growth planning sessions, fewer than half say they have the clarity the organization needs and the rationale for growth, and just over one-in-four (27 percent) say they establish quarterly follow-up meetings to track progress.

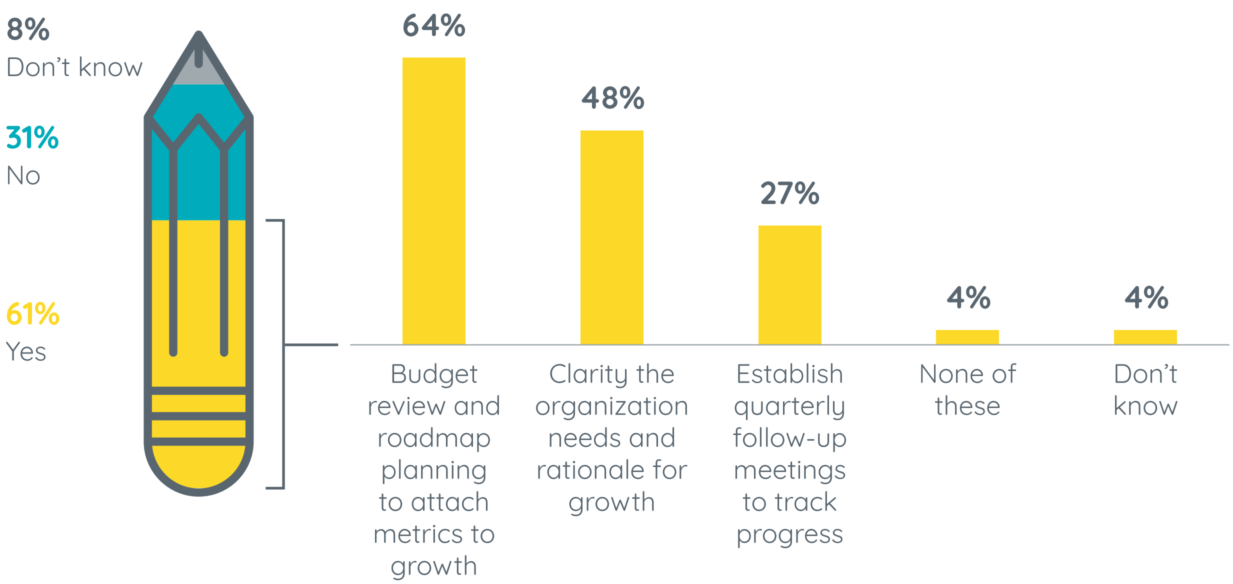


Figure 9: Do you hold formal growth planning sessions with your team to decide on how to grow strategically? (left chart)
IF YES: Which of the following activities does your organization do well when you are planning for growth? Select all that apply. (right chart)

While a majority of respondents indicates their budget review and roadmap planning are very effective activities when planning for growth, just 39 percent say the same regarding establishing quarterly follow-up meetings.

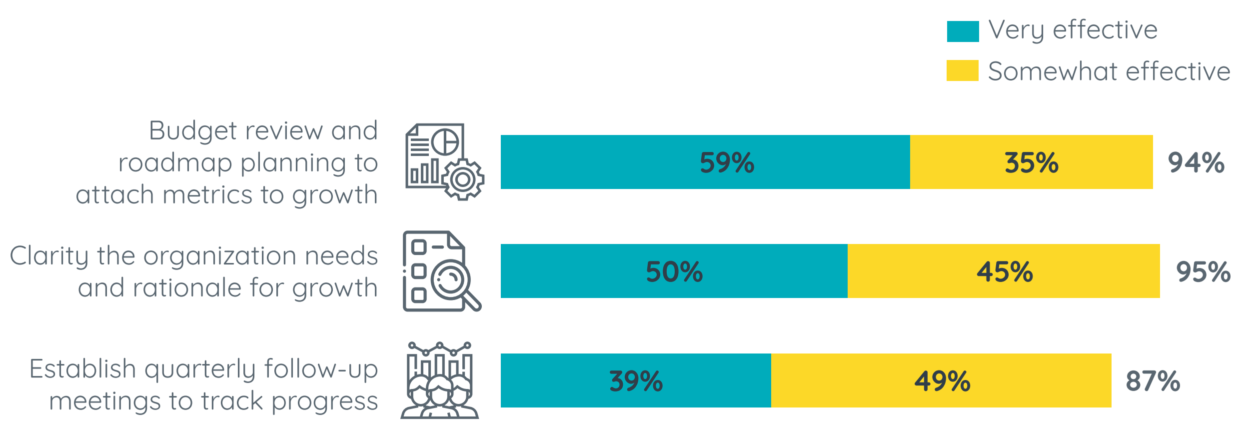
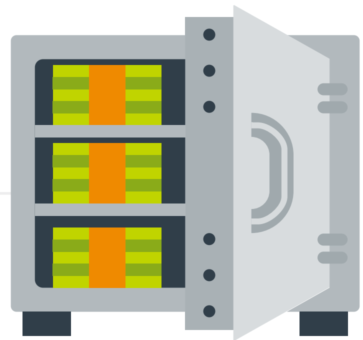


Figure 10: IF YES: How effective do you feel each of these activities would be (are) when planning for growth?

Section 2: Funding and grants



Program/service revenue and government grants continue to be the top sources of revenue, with the two of these together making up half of an organization's revenue on average.

There is a noticeable decline in the percent relying on government grants, from 30 percent to 24 percent, between 2017 and 2018.

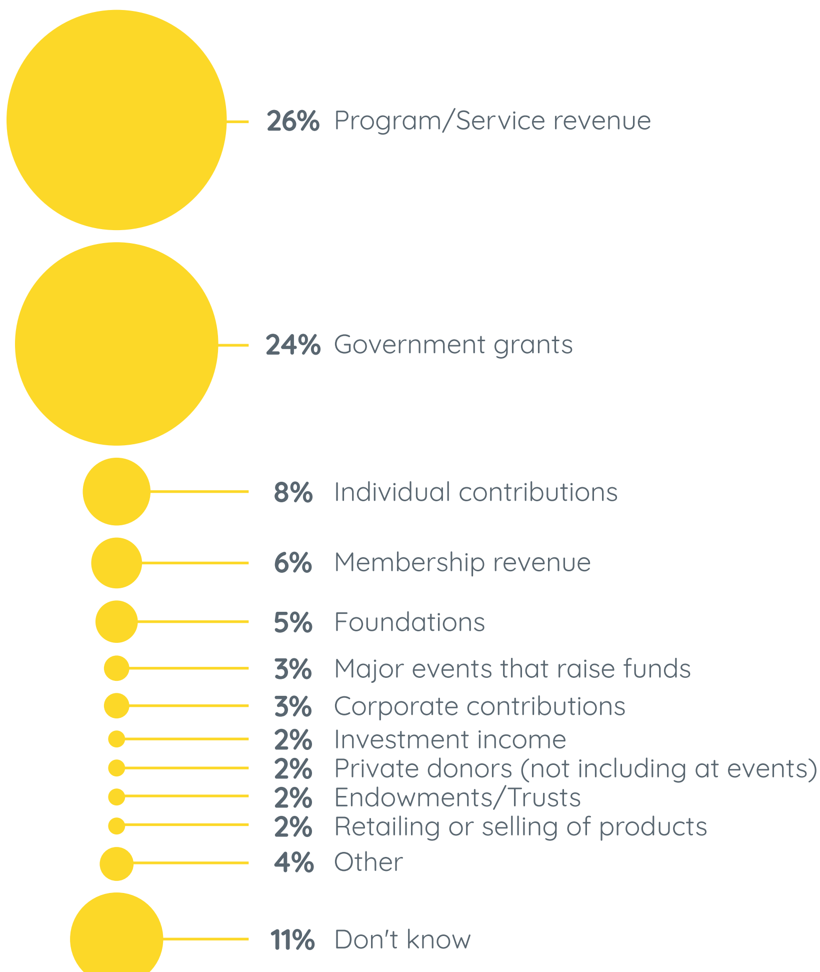


Figure 11: To the best of your knowledge, approximately **what percent** of your revenue comes from the following sources? If you have no idea at all, put "100" for don't know.

Growth almost necessarily sparks funding anxiety. Three-quarters of respondents worry at least somewhat about their ability to maintain funding as their organization grows; one-in-three worries about this very much.

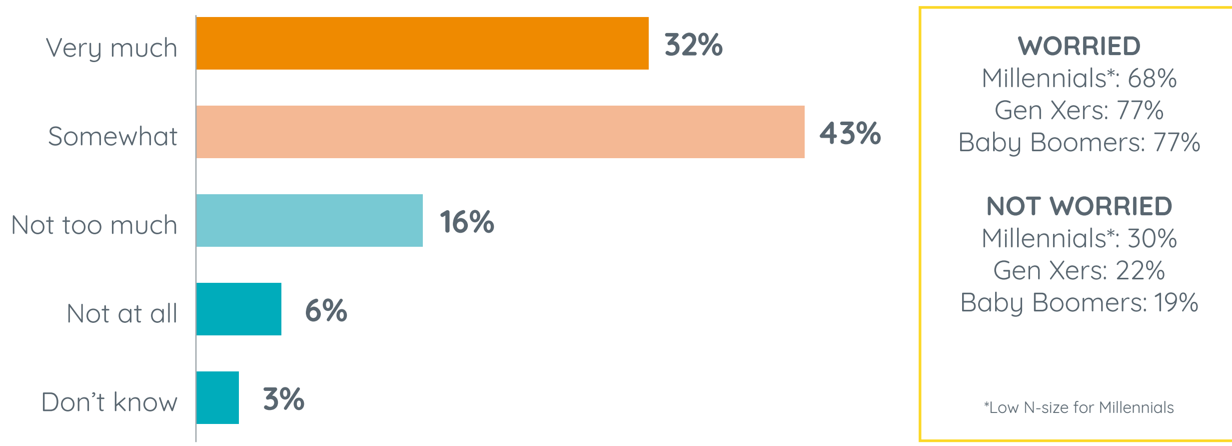


Figure 12: When your organization grows, how much do you worry about your ability to maintain funding?

While three-in-four respondents believe most nonprofit organizations that grow are able to maintain their funding at least somewhat often, just one-in-eight says nonprofit organizations do this very often.

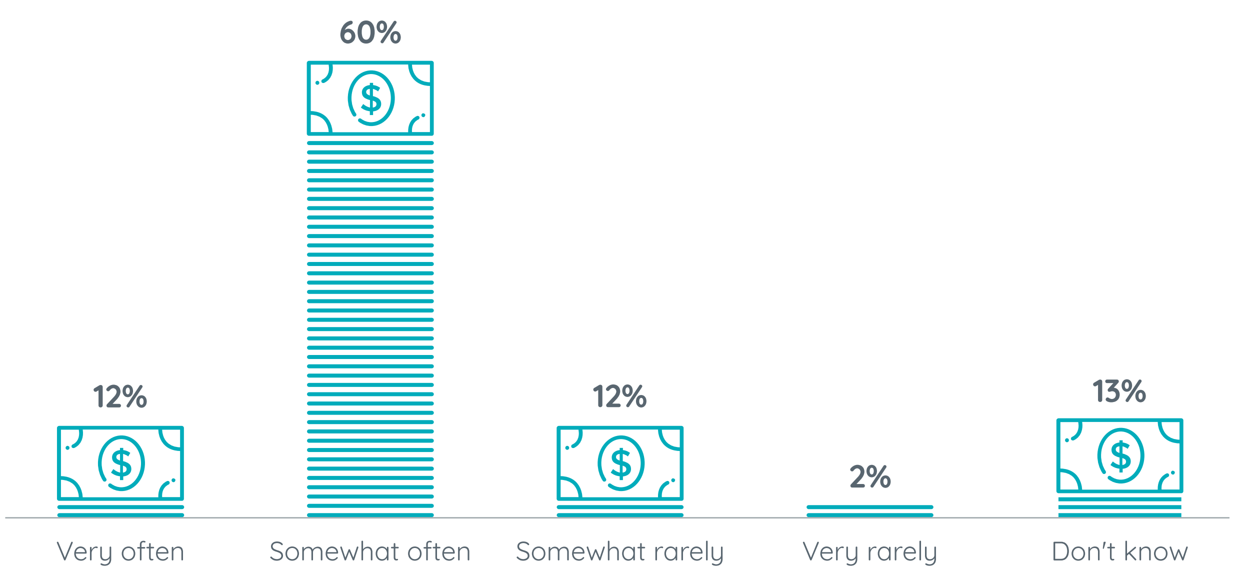


Figure 13: How often do you think most nonprofit organizations that grow are able to maintain their funding once they have grown?

Reporting to funders

Nonprofit finance professionals are split on whether growth means changing the way they report to funders; they are as likely to say it does as they are to say it does not. Among those who mention changes, many mention there is a higher burden of proof, that they have to learn new ways to respond to funders, and that they have to increase assessment.

Figure 14: As organizations like yours grow, do you have to change the way you report to funders?

Figure 15: IF YES: What types of changes do you have to make in the way you report to funders as your organization grows? (Word cloud is taken from open-ended verbatim responses; larger words were mentioned more frequently.)

Though some say there are changes in reporting requirements that come with growth, the vast majority says they **do not** have to report to funders more **frequently** with growth. At the same time, the majority says as their organizations grow, they **do** need to be more **transparent** with funders. More than half of nonprofit finance professionals say it is at least somewhat of a burden to increase the frequency or transparency of reporting with funders. Ultimately, this points to the need for an efficient way to view dashboards and pull reports that can be communicated to funders as needed.

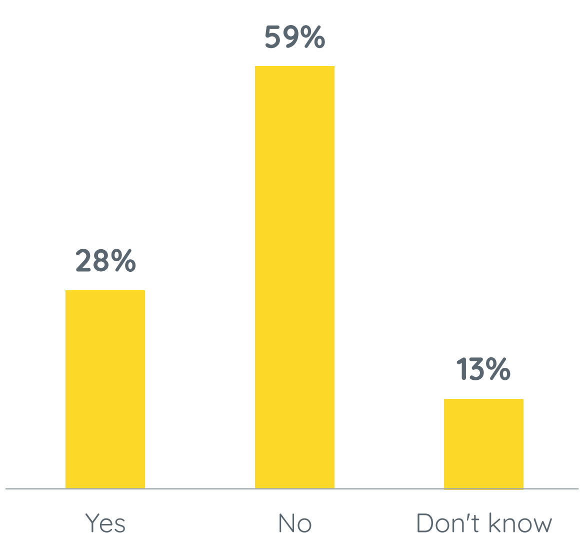


Figure 16: As organizations like yours grow, do you have to report to funders more frequently?

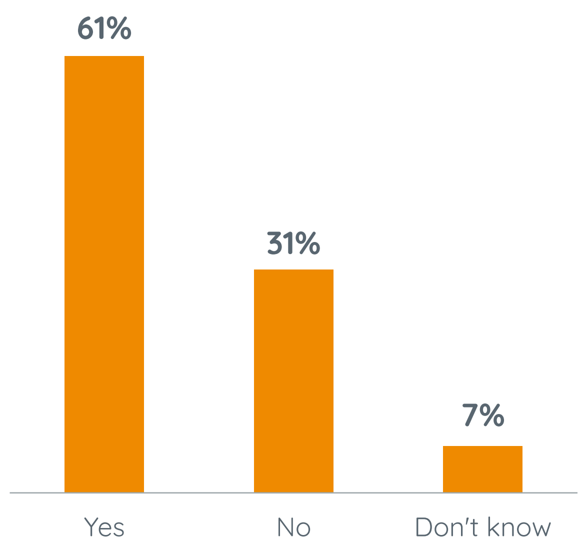


Figure 17: As organizations like yours grow, do you have to be more transparent with funders?

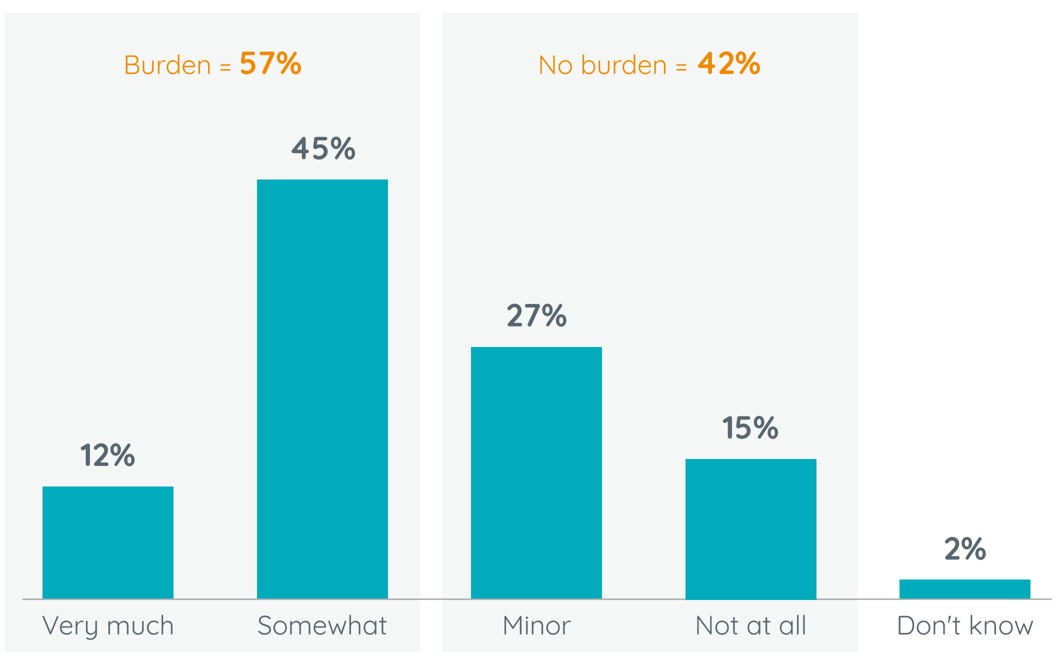


Figure 18: IF YES IN EITHER OF THE PREVIOUS TWO QUESTIONS: How much of a burden is it for you to have to report to funders more frequently or to be more transparent with funders?

Section 3: The effects of growth on overhead and risk management

Overhead

Increasing operational overhead as it accompanies growth is challenging. Two-thirds of respondents see effectively implementing each aspect of overhead we included in the survey as at least a moderate challenge. More than half – 53 percent – say it is harder to manage technology needs in a larger organization, and nearly half say the same for ensuring security of data. Nonprofit finance professionals were far less likely to say the same about sharing data or ensuring transparency.

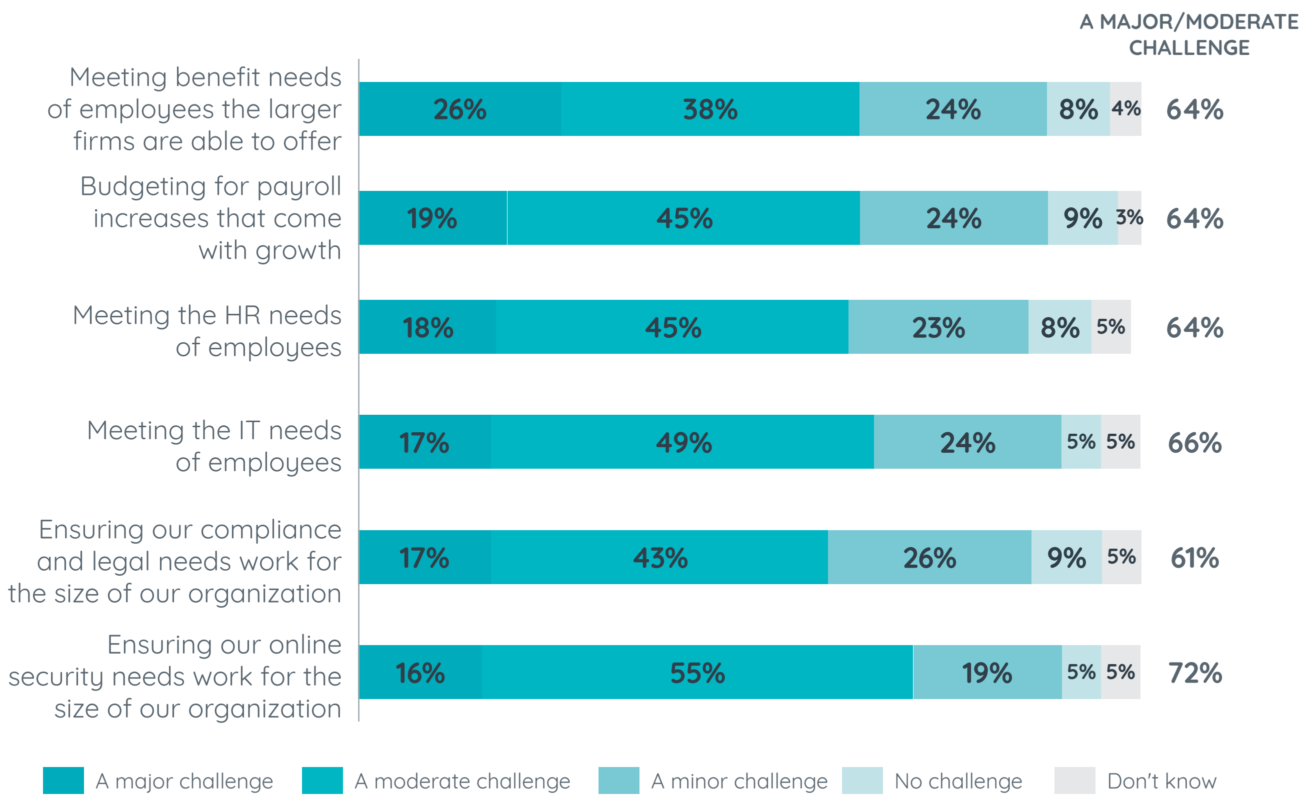


Figure 19: Thinking about the increase in operational overheard as your organization grows, how much of a challenge is it to effectively implement the following?

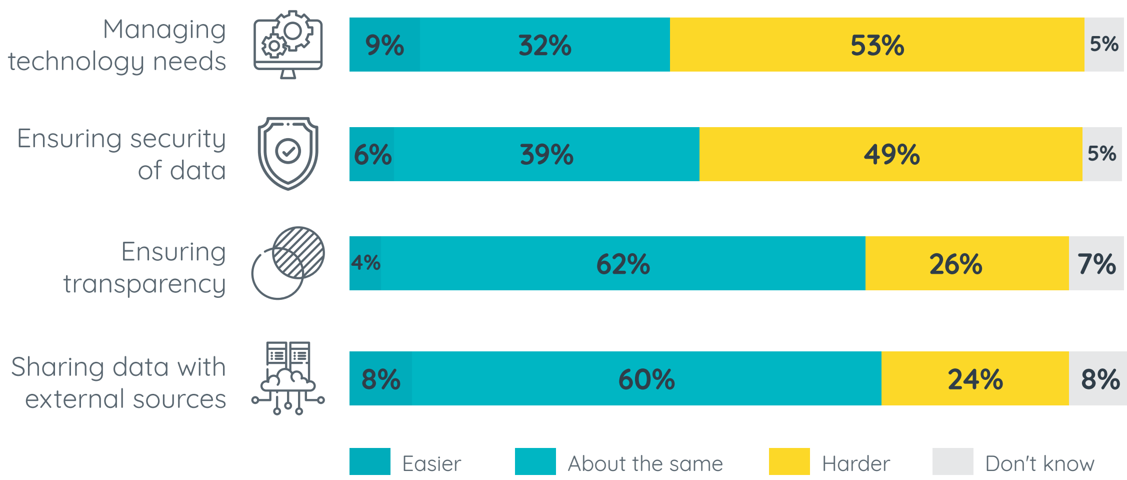


Figure 20: Please indicate whether each is easier, about the same, or harder, to execute in a larger organization.

Risk management

Roughly unchanged from 2017, about two-in-three are somewhat confident – and most of the rest very confident – that their organization would be able to manage risk as it grows. At the same time, risk management during the growth process is most likely to be achieved by setting specific internal goals or milestones, pointing again to the need for preparation and planning for growth.

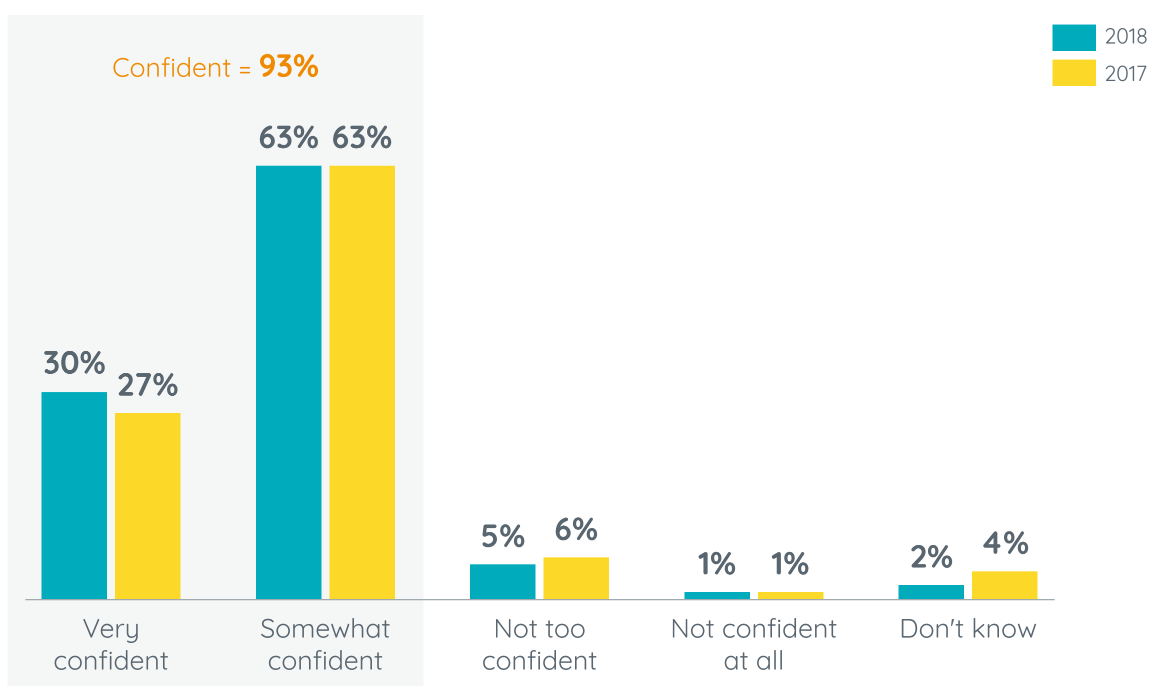


Figure 21: How confident are you in your organization's ability to manage risk as it grows?

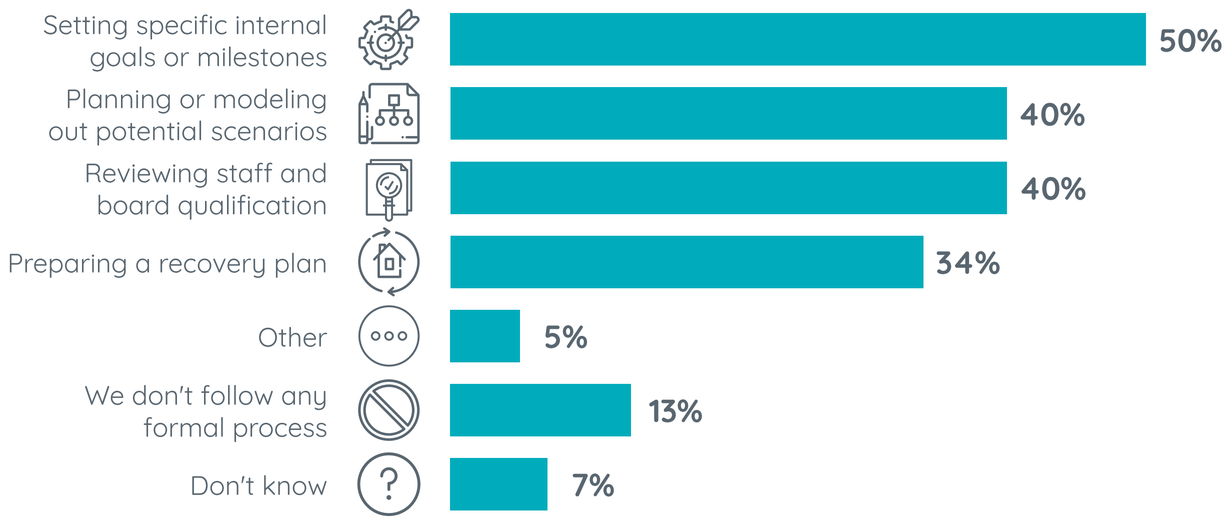
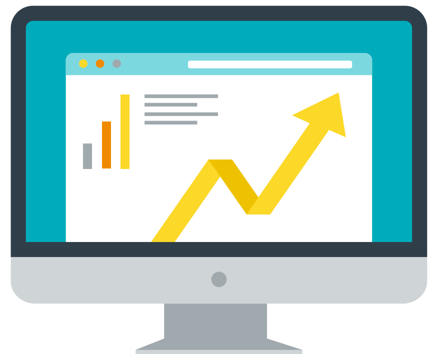


Figure 22: How does your organization manage risk throughout the growth process? Select all that apply.

Section 4: Technology and growth



Growth has an effect on an organization's technology. Eighty-one percent say this is at least somewhat the case, and one-in-four says this is very much the case.

The majority finds it somewhat or very difficult to ensure technology is meeting the needs of their growing organization. Millennials are more likely to think it is easier compared to those of older generations.

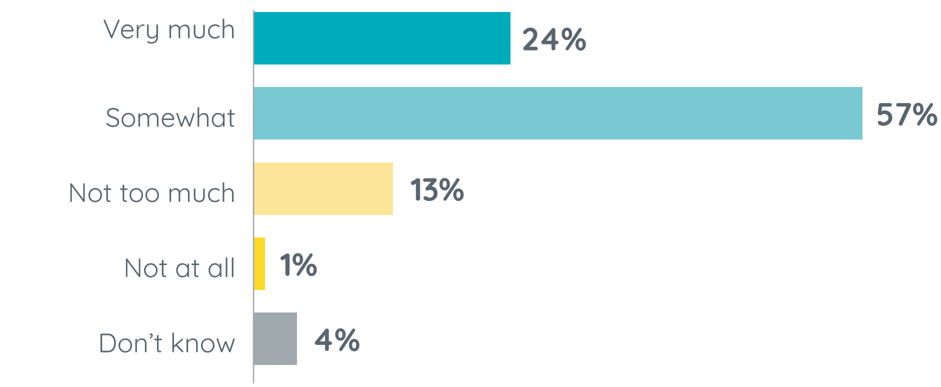


Figure 23: How does your organization's growth affect your current technology?

VERY MUCH
Millennials*: 27%
Gen Xers: 26%
Baby Boomers: 21%

SOMEWHAT
Millennials*: 59%
Gen Xers: 55%
Baby Boomers: 60%

*Low N-size for Millennials

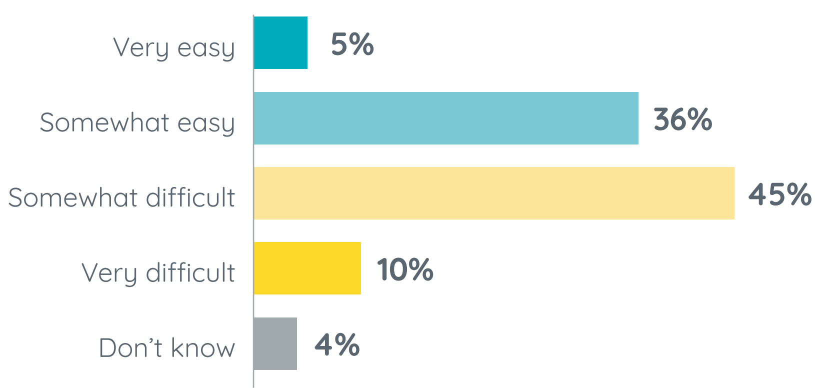


Figure 24: How easy or difficult is it for an organization like yours to make sure its technology will meet your organization's needs as it grows?

EASY
Millennials*: 49%
Gen Xers: 39%
Baby Boomers: 40%

DIFFICULT
Millennials*: 46%
Gen Xers: 57%
Baby Boomers: 56%

*Low N-size for Millennials

Increasing access to real-time data and updating technological infrastructure are the top concerns during times of growth. And, while more than three-quarters have confidence that their organization's technology can continue to meet their needs during growth, only one-in-five is very confident about this. The level of confidence depends in part on the organization's size. Those in larger organizations were confident, but somewhat less confident than those of small organizations.

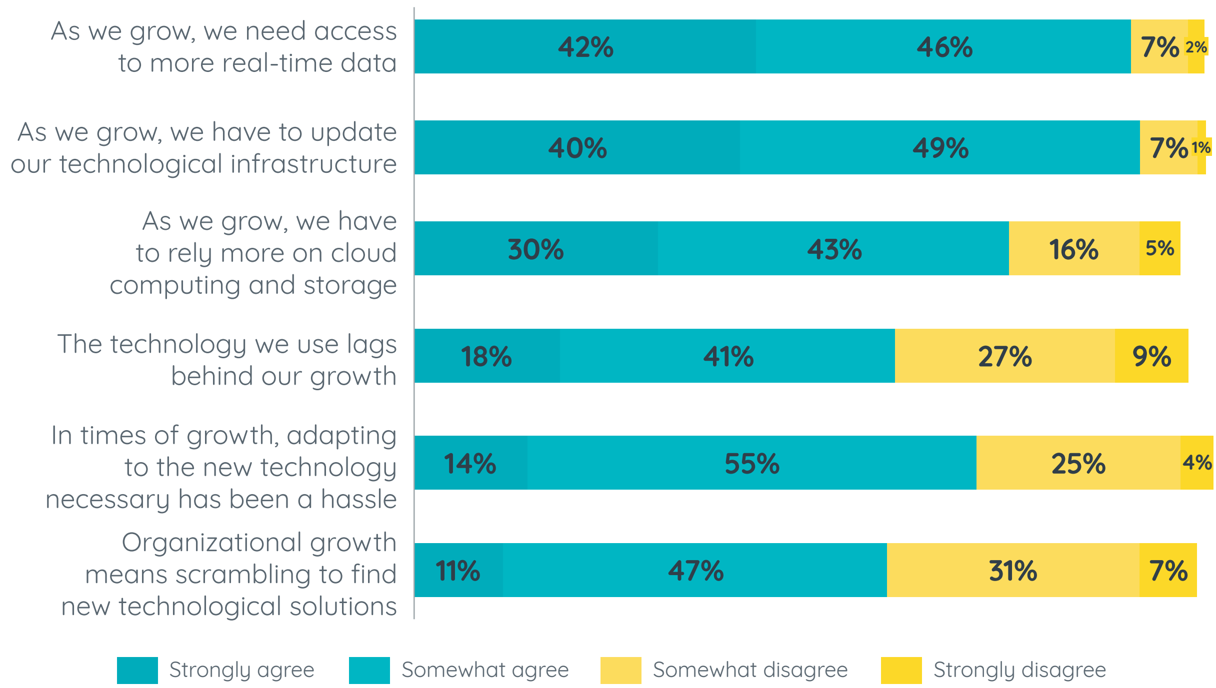


Figure 25: Please indicate whether or not you agree with the following statements.

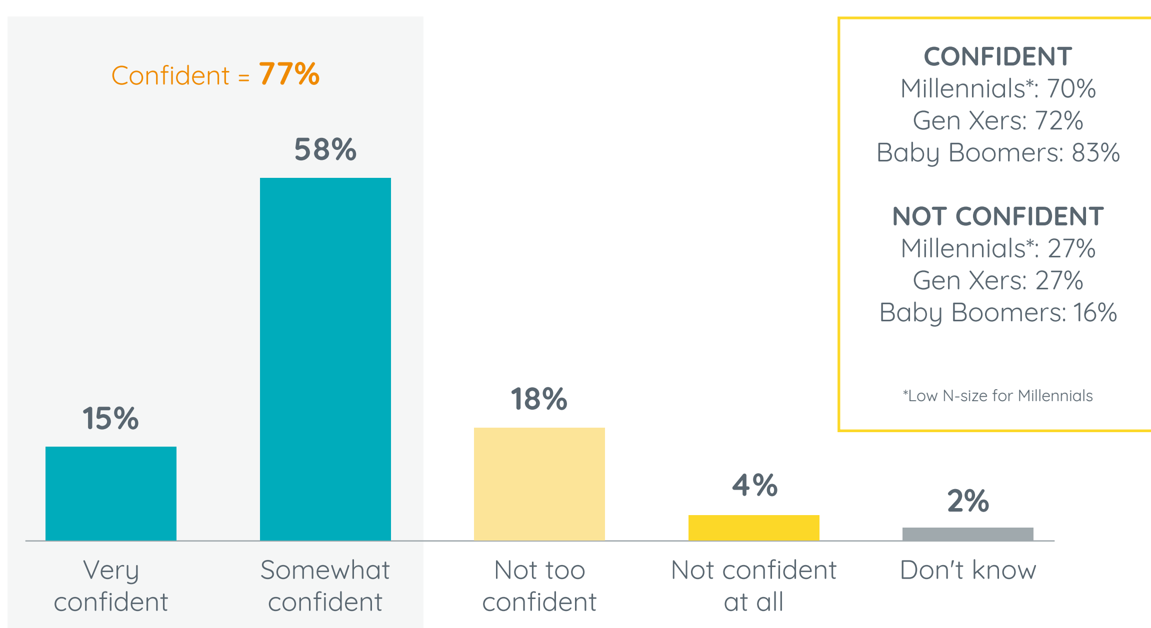


Figure 26: How confident are you that your organization's current technology can meet your needs as your organization grows?

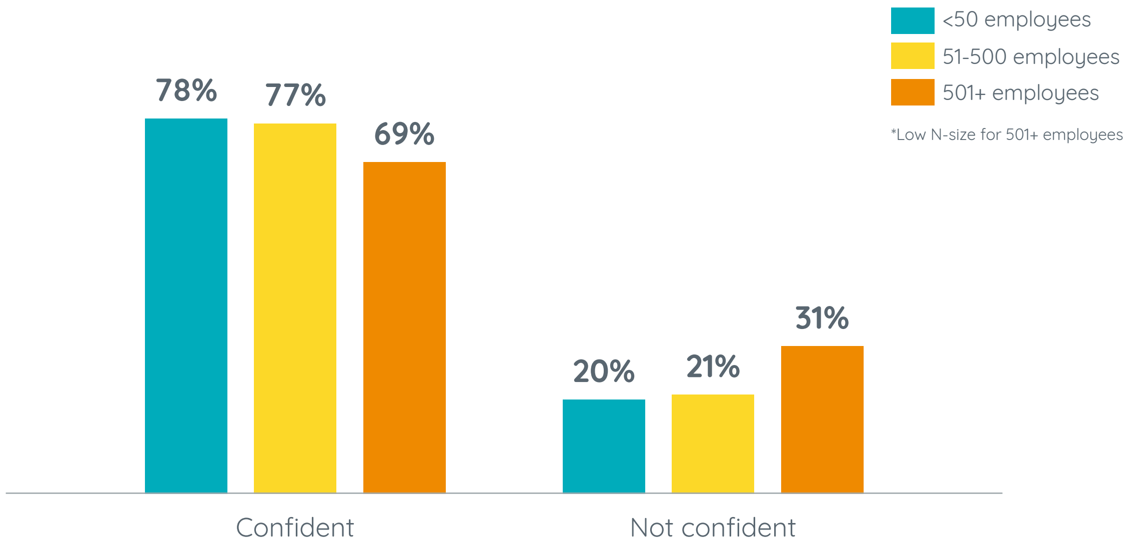


Figure 27: How confident are you that your organization's current technology can meet your needs as your organization grows?

When it comes to making technology changes, a majority of nonprofit finance professionals (59 percent) is considering purchasing new software within the next year and a half. Much fewer are concerned about moving their IT department by outsourcing IT (9 percent) or bringing IT in-house (6 percent). When nonprofit finance professionals do ponder whether to bring IT in-house, the complexity of technology used and the cost of outsourcing are the most considered factors.

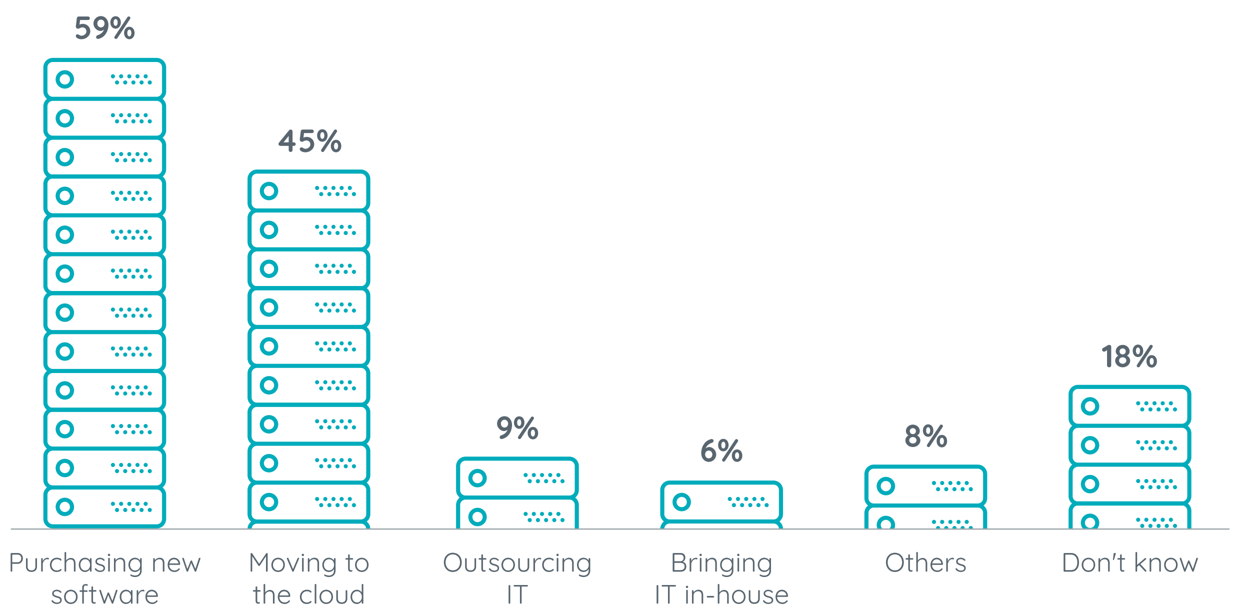


Figure 28: Which of the following technology changes have or has your organization considered making within the next 12-18 months? Select all that apply.

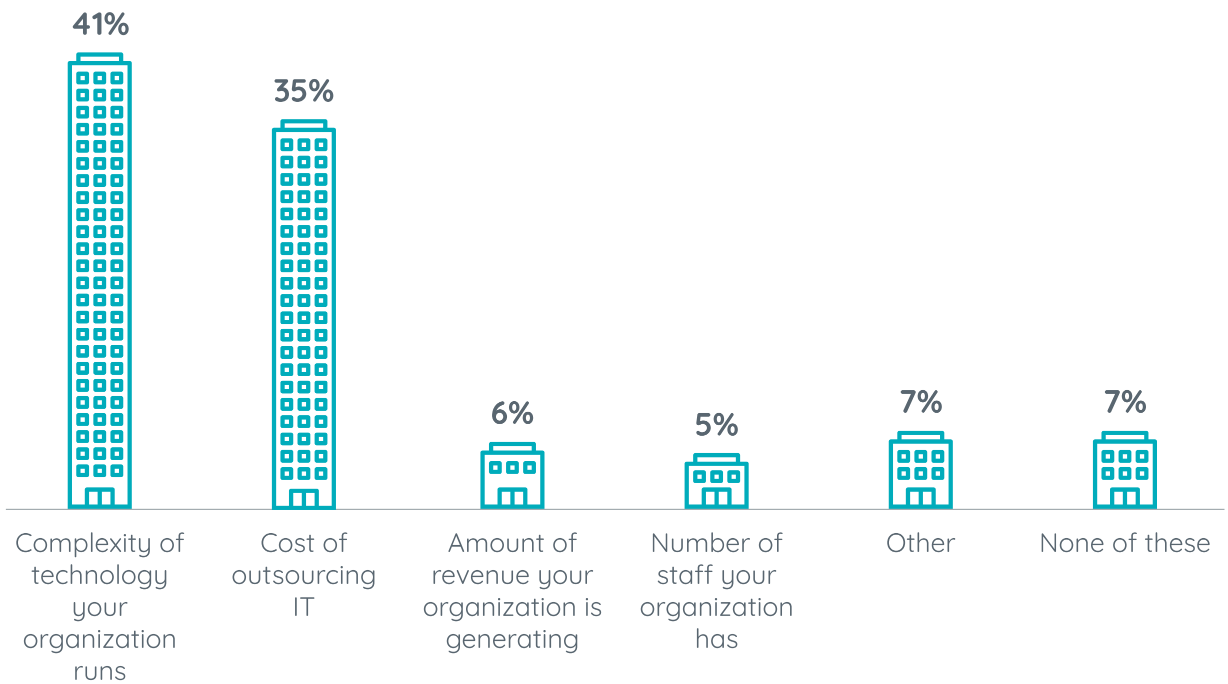


Figure 29: When deciding whether to bring IT in-house, what factor is MOST important to consider for your organization? **(If you have already brought IT in-house, what factor did you consider the MOST?)**

Section 5: Current administration policies

Loss of funding, or fear of losing funding, is commonly noted as a challenge in reference to the current political climate.

Aside from funding, nonprofit finance professionals also have concerns about changes to healthcare and taxes. Here's what respondents had to say:

Figure 30: Generally speaking, what are some of the biggest challenges or changes your organization is facing given the current political climate nationally? (Word cloud is taken from open-ended verbatim responses; larger words were mentioned more frequently.)

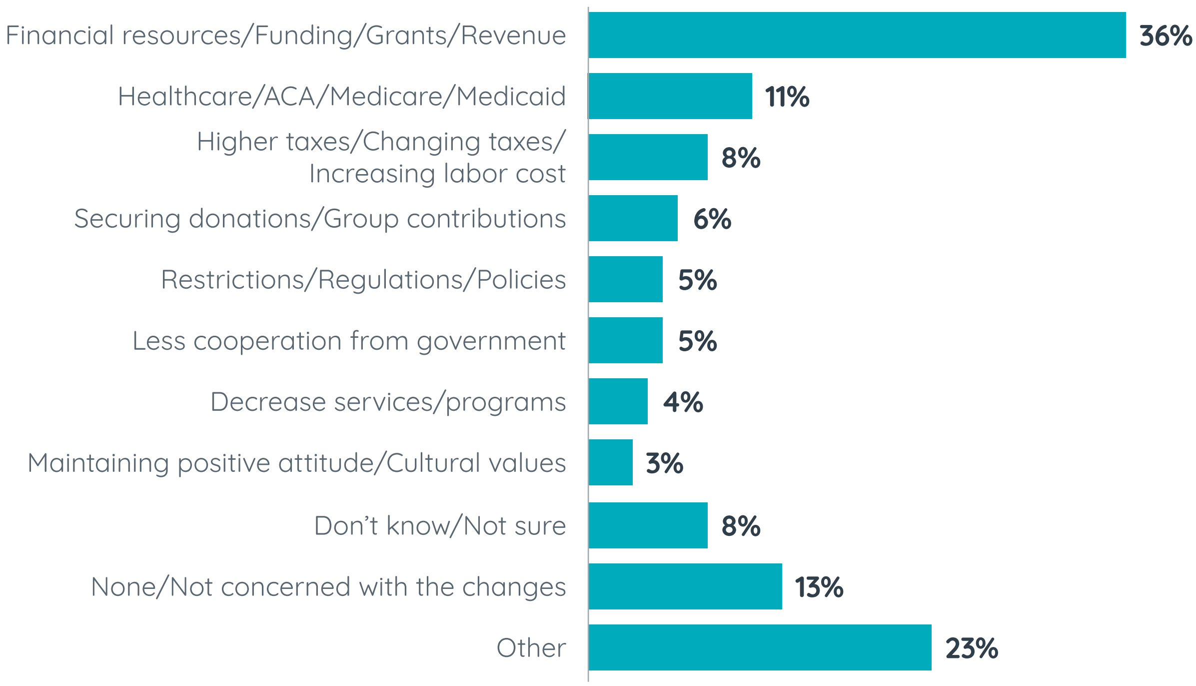


Figure 30 continued: Generally speaking, what are some of the biggest challenges or changes your organization is facing given the current political climate nationally?

Half of nonprofit finance professionals believe the Tax Cuts and Jobs Act of 2017 neither helps nor harms their organization's ability to grow.

Those with an opinion in either direction were twice as likely to believe it harmed the organization than they were to believe it helped the organization.

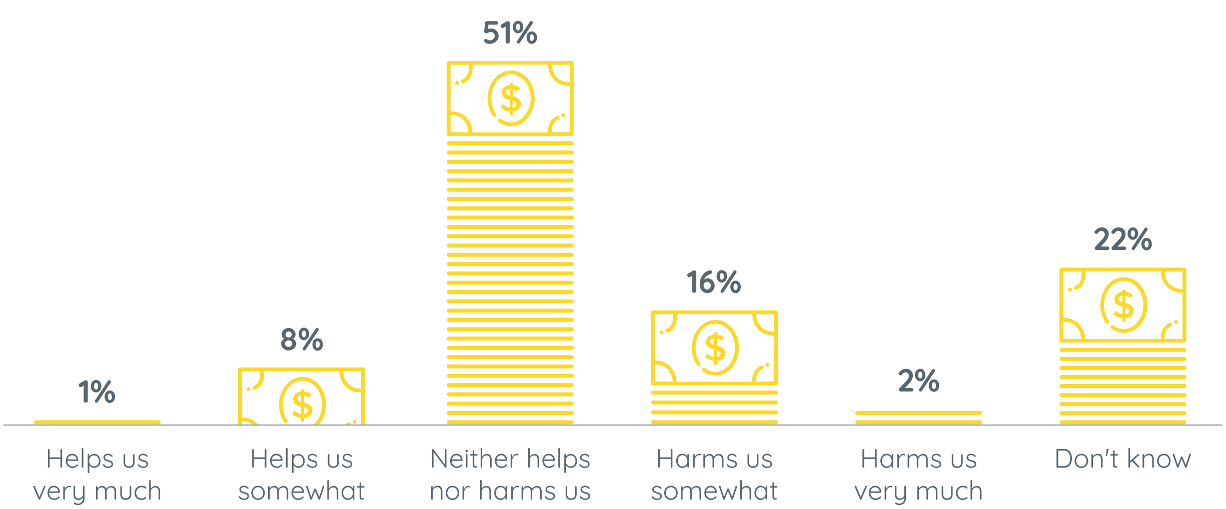


Figure 31: How does the recent tax legislation passed in December of 2017, known as the Tax Cuts and Jobs Act, affect your ability to grow your organization?

Section 6: Where do we go from here?

There's no question: Growth is important to most organizations, no matter the mission or size.

At the same time, the search for new ways to generate revenue and respond to other growth-related challenges continues.

So, where do you go from here? We have some tips on how to turn the data from this study into a strategic plan for managing the dynamics and challenges of growth for your organization:

1. **Continue to prepare for growth.**

   Most nonprofit finance professionals are experiencing growth and expect to continue to do so over the next year and beyond. Hold formal growth planning sessions with your team to decide how your organization will grow strategically over the next 12 to 18 months, and clarify your organization's needs associated with that growth. Be sure to include everything from budget and staffing needs to reporting and technology requirements.

2. **Track progress against your plan.**

   While most nonprofits are meeting to plan budgets and other needs related to growth, they aren't necessarily following up to track progress. Be sure to establish metrics for success in your plan for growth, and establish quarterly follow-up meetings to track progress against the plan.

3. **Address the funding anxieties that may come from growth.**

   One of the top worries associated with nonprofit growth is funding. Considering that most nonprofits are expecting to look for new ways to generate revenue, and that the sector may be seeing a slight shift away from grant funding, it may be time to diversify your revenue sources. If you haven't already, look to expand your fundraising efforts and create new service-based revenue to get ahead of funding anxieties.

4 Prepare for more transparent reporting.

As your organization grows, your reporting needs likely will change – especially when it comes to being more transparent with funders and other stakeholders. Develop processes and workflows for maintaining and tracking your expanding revenue streams and operational expenses. And, be sure to identify your technology requirements for managing multiple revenue sources. If you aren't sure what you need to do to prepare for the additional reporting requirements that come with growth, consider bringing in outside experts to help.

5 Build a technology plan.

In our study, we found that growth has an effect on an organization's technology. Assess your current technology infrastructure – especially in regard to online security, disaster recovery and your ability to access real-time data. As you're making software purchasing decisions, be sure to consider if your technology solutions can scale to meet your organization's evolving needs, including new revenue sources, more complex reporting and a larger staff.

Survey Methodology

Commissioned by Community Brands, Finn Partners conducted an online survey of 321 nonprofit finance professionals in the U.S. who self-reported that they are working currently within the nonprofit industry and that their primary role involves finance or accounting. The margin of error for a random survey with 321 respondents is approximately +/- 5.4 percent. The survey was fielded between July and August, 2018.

About Community Brands

Community Brands is the leading provider of cloud-based software to associations, nonprofits, K-12 schools and faith-based groups. Through innovation and technology, the company empowers more than 100,000 clients and partners to succeed faster, grow stronger and achieve social good. Organizations adopt Community Brands software to manage memberships, career centers, learning, accounting, mobile giving, peer-to-peer fundraising, donations, admissions, enrollments and events. Using these engagement platforms, customers of all sizes create meaningful and lasting experiences for their members, donors, volunteers and families. Headquartered in St. Petersburg, Florida, Community Brands serves the social good community in more than 30 countries. To learn more, visit www.communitybrands.com or follow us on Twitter or LinkedIn.

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