Institute of Community Directors Australia (ICDA) NFP Governance Survey 2019

ICDA Spotlight Report: Not-for-Profit Finances

September 16, 2019

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Key Findings

The not-for-profit sector can be split more or less **equally into two groups:** financial **battlers** and **thrivers**.

The **sports and recreation** and **human services** sectors are in **slightly better condition financially**, while organisations in the **arts and culture** sector are **more likely** to be just breaking even or **struggling**.

Smaller organisations – those with an annual revenue of less than $50,000 – are **more likely** than others to say they are **struggling financially.**

40% of respondents believe only **some, few or none** of their board members has a **sufficient understanding of the organisation's finances.**

Organisations where most board members have a solid understanding of the finances are more likely to be in good shape financially, but having a board where all members are fully across the finances is not a guarantee of financial success.

Collaboration as a strategy for reducing administrative expenses is a relatively common practice, having been pursued by around one in three organisations in the year prior to the survey. It's most common in the community development sector.

Major IT projects are relatively common, having been experienced by **one in five** respondents in the leadup to the survey. IT projects were most common in the human services and health sectors, and in larger organisations. Organisations that are struggling financially are less likely than others to have undertaken a major IT project.

Mergers are relatively rare, having been experienced by **6%** of organisations in the leadup to the survey. They were most commonly experienced by larger organisations, but the decision to proceed does not appear to be correlated with an organisation's financial health.

Replacing a CEO is more common among large organisations, and more common among organisations that are struggling financially.

About The Survey

The Institute of Community Directors Australia (ICDA) surveyed 1878 senior leaders in the community sector in the six weeks leading to March 26, 2019.

Respondents came from all states and territories in Australia (with Victoria, New South Wales, Queensland and Western Australia dominating the sample), and were roughly evenly spread between the roles of senior management/CEO and board members.

Most respondents were involved in organisations in the community development; human services; education; health; arts and culture; and sports and recreation segments of the community sector.

The majority of respondents identified as women (71%), with 28% identifying as male and 0.48% non-binary.

This *ICDA Spotlight Report* presents a snapshot of results relating to not-for-profit finances. The sample size for finance-related questions is, on average, 1525. Note that our survey did not identify individuals nor individual organisations; as such, there may be some overlap in some of our results.

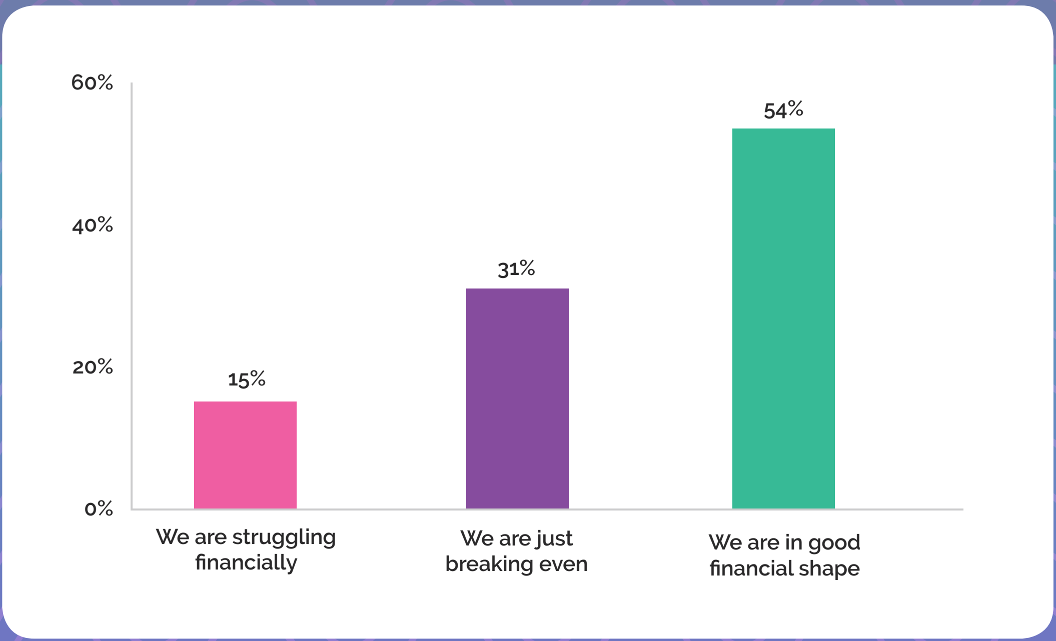
One final *ICDA Spotlight Report* will be released (on the topic of board induction, during the week commencing October 7), with a final report incorporating all results to be released in December.

Detailed Results

The not-for-profit sector can be split more or less equally into two groups: financial battlers and thrivers. Our survey found that 54% are doing well financially (thrivers), while 31% are breaking even and 15% really struggling (the sum of these two groups we see as battlers).

How would you characterise the health of your organisation's finances?

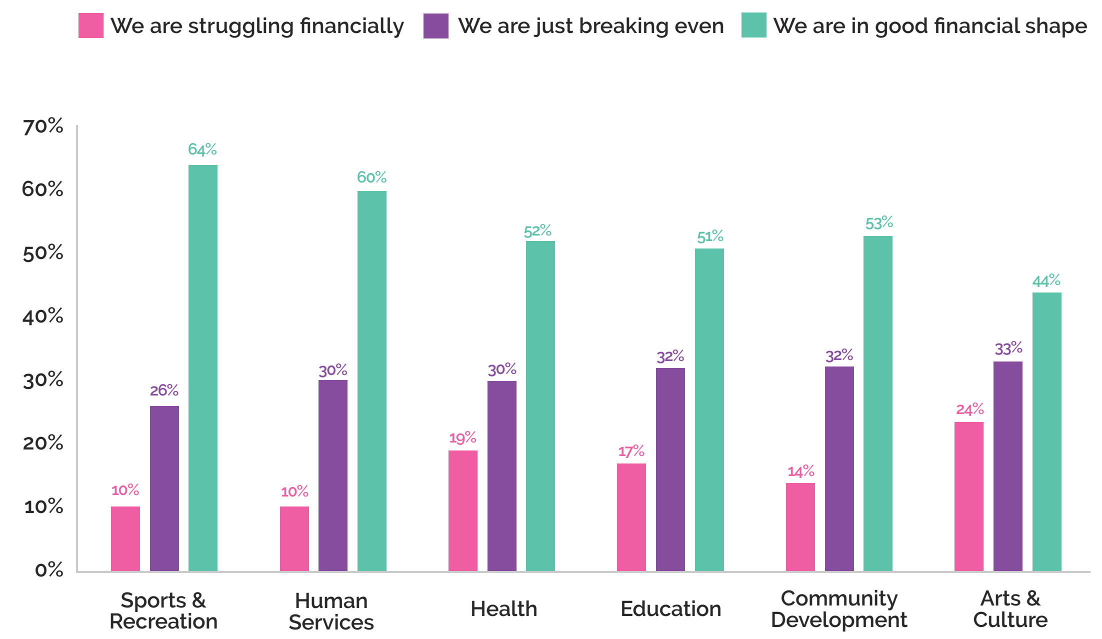
Percentage (%) of ICDA survey respondents that said...



There are few variations in the findings when split by sector[1], though as the chart below indicates, the sports and recreation and human services sectors are in slightly better condition financially, while organisations in the arts and culture sector are more likely to be just breaking even or struggling.

Financial health by sector (%)

Select the one of the main field in which your organisation works



Note that data may sum to more than or less than 100% due to rounding.

[1] We have drilled down on sector-based findings only in sectors where we had enough data to represent a legitimate sample.

Perhaps unsurprisingly, smaller organisations – those with an annual revenue of less than $50,000 – are more likely than others to say they are struggling financially. Around a quarter of respondents (24%) from small organisations indicated they were struggling financially, a figure four times larger than the 6% from large organisations (those with annual revenue of $10 million to $100 million) who indicated the same.

Financial health by annual revenue (%)

What is your organisation's approximate annual revenue?

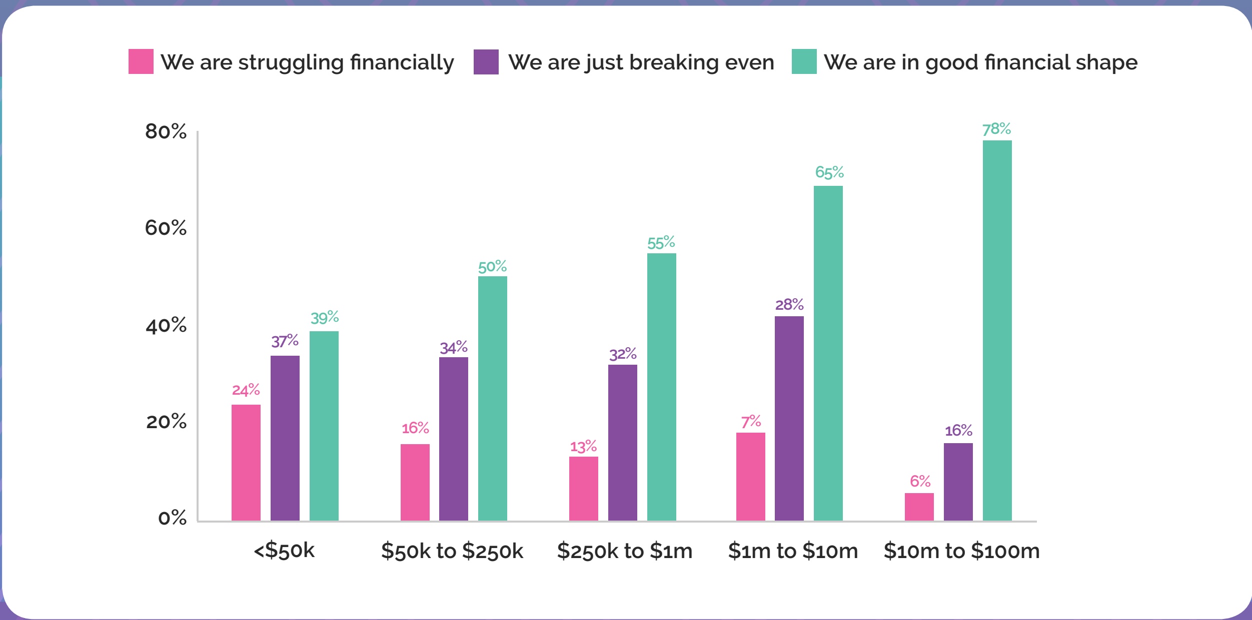
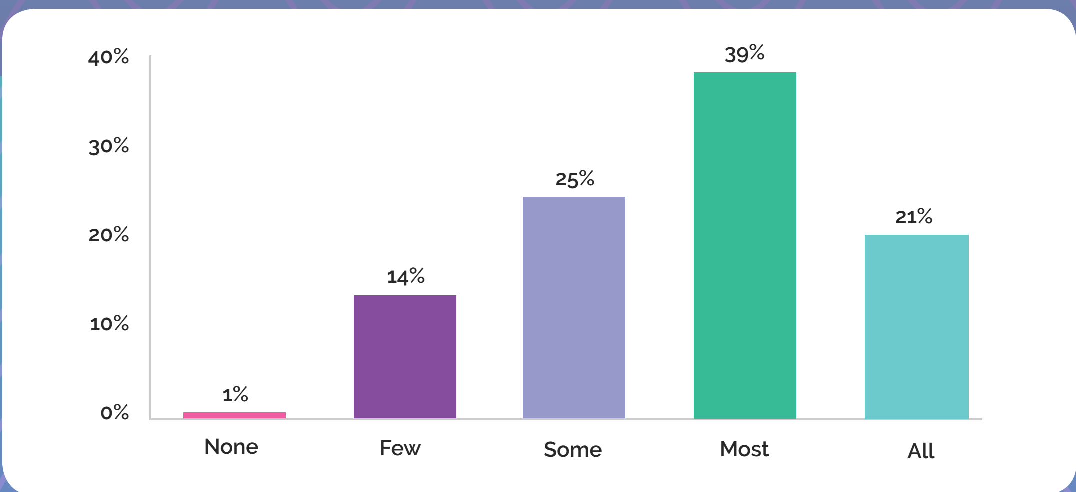


Chart excludes responses from those who replied "don't know/would rather not say" and those with annual income of $100 million+, whose sample size was too small to be statistically significant.

Sixty per cent of respondents to our survey said "most" or "all" of their board had a sufficient understanding of the board's finances, though a worrying minority (40%) indicated that only "some", "few" or "none" of their board directors were across the finances. These results were consistent regardless of sector and organisation size.

What proportion of the board do you think has a sufficient understanding of the finances of your organisation?



Our survey suggests that organisations where most board members have a good grip on the finances are more likely to be in good shape financially. But that's only part of the story.

Exploring this relationship further, we can tease out a few more insights. For example, it's rare in organisations that report good financial health for people to report that only a few people know about the finances (11%). However, blanketed financial knowledge across the board is not enough to guarantee an organisation's financial success. Only 22% of those that reported strong financial results said that **all** members of the board clearly understood the organisation's finances. Having a **large proportion** of board members across the finances appears to be sufficient, and indeed it appears that "most" may be preferable to "all" (see the table below). Pondering these results, it's tempting to posit that diversity on the board may be more important than all-round financial acumen – that is, it may be preferable to have a board with a variety of skills than a board full of accountants.

It's worth noting also that financial troubles do not appear to be correlated with financial acumen on the board. Fifteen per cent of our sample reported that they were struggling financially but these organisations were just as likely to say they have board members with strong financial skills as weak ones.

Charting the relationship between financial performance and board financial literacy

	We are struggling financially (15% of the sample in this report)	We are just breaking even (31% of the sample in this report)	We are in good financial shape (54% of the sample in this report)
Few members of the board know about the org's finances	22%	17%	11%
Some members of the board know about the org's finances	25%	27%	23%
Few + Some:	**47%**	**44%**	**34%**
Most members of the board know about the org's finances	30%	37%	44%
All members of the board know about the org's finances	23%	19%	22%
Most + All:	**53%**	**56%**	**66%**
Total :	**100%**	**100%**	**100%**

The darker the shade, the higher the percentages. A change in the shade represents a change in statistical significance. Note we have excluded from the results (as per the left-hand column above) those who answered "none" because this response constituted less than 1% of the responses.

We asked the senior leaders of not-for-profit organisations who responded to our survey if they had experienced major financial and structural changes during the previous year, or if they planned to undertake such actions in the year ahead.

Which of the following actions has your organisation undertaken in the past 12 months or does it plan to undertake in the next 12 months?

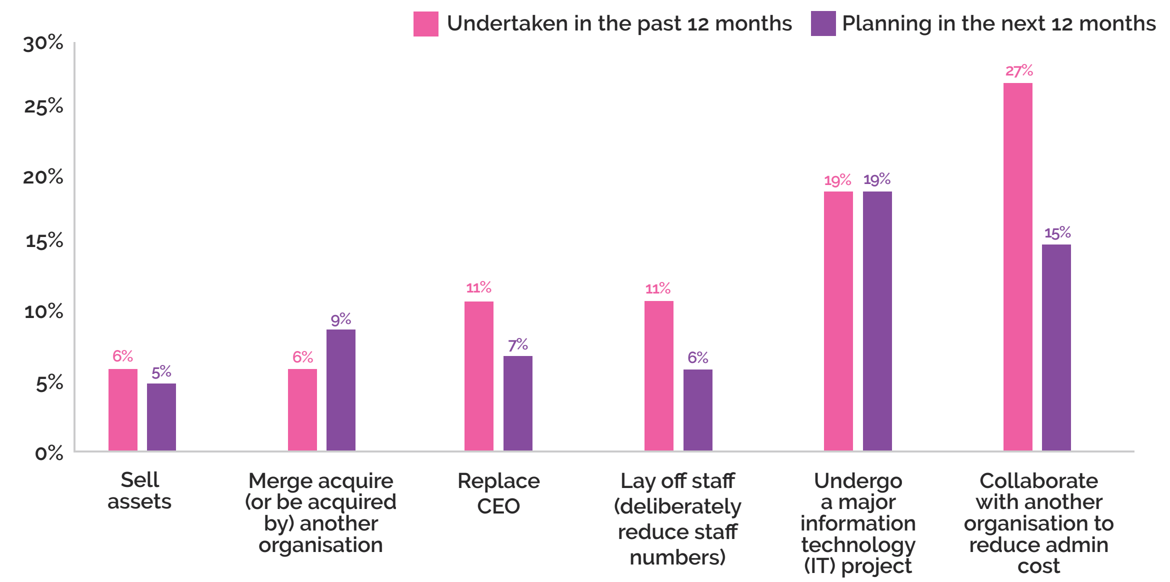


Chart shows the proportion of the active sample who selected each option. Respondents were asked to lodge no response if the action/s did not apply. Please note that while the figures discussed in the commentary below are indicative, where percentage differences are small it's prudent to treat findings with caution.

As the chart above shows, our survey revealed that around one in three organisations had collaborated with another organisation in the previous year to reduce expenses, while half of that number (one in six) planned to do so in the year ahead. It is unclear whether the difference in these numbers is due to the fact that collaborations of this sort are generally unplanned, or whether some other factor (e.g. a more stable funding environment; less appetite for collaborating) is at play.

We also found differences in the number of organisations that had previously laid off staff (11%) or planned to in the next year (6%); and those that had replaced the CEO (11%) or planned to (7%). Again, these types of activities may be less likely to be planned well in advance, or other factors may be at play.

Conversely, we found that fewer organisations had undergone a merger (6%) than planned to in the year ahead (9%).

Our survey found that one in five organisations had gone through a major IT project in the previous year, while a similar number planned to do so in the year ahead, indicating that this is a constant need currently within the sector. The proportion of organisations planning to sell assets was also stable (6% had done so in the previous year; 5% planned to in the year ahead).

Many organisations went through more than one major financial change last year. For example, of the 417 of respondents that collaborated with another organisation to reduce expenses (27% of the sample):

- 27% had also undertaken a major IT project
- 16% had also replaced their CEO
- 15% had laid off staff
- 14% had merged with another organisation
- 9% had sold assets.

As part of our analysis, we sought to tease out variations between sectors in relation to financial and strategic actions and trends. The results are shown below. Higher percentages are shown in the chart with darker shading.

Our results reveal that the health and human services sectors are more likely than others to have undergone a major IT project, and that the community development sector is more likely to have collaborated with other organisations to reduce administrative expenses.

Percentage of respondents who say their organisation went through a major financial/strategic change last year (by sector)

	Sport and recreation (9% of the sample)	Human services (20% of the sample)	Health (13% of the sample)	Education (12% of the sample)	Community development (20% of the sample)	Arts and culture (10% of the sample)
Sold assets	4%	6%	7%	6%	4%	3%
Merged with another organisation	6%	5%	7%	3%	7%	5%
Replaced the CEO	10%	8%	13%	9%	10%	10%
Laid off staff	9%	11%	11%	10%	11%	6%
Underwent a major IT project	11%	20%	24%	15%	13%	8%
Collaborated with another organisation to reduce expenses	17%	22%	23%	20%	32%	19%

The darker the shade on each row, the higher the percentages. A change in the shade represents a change in statistical significance. Note: Results from only 84% of the sample are shown above. The remaining 16% comprises a mix of all other sectors. These results were not used in this table because the relatively small number of responses rendered them statistically insignificant.

We also sought to uncover any correlations between organisation size (determined by the organisation's annual turnover) and financial/strategic actions. The results are shown in the table below. Higher percentages are shown in the chart with darker shading.

We found that the larger the organisation, the more likely they were to have merged with another organisation, replaced the CEO, laid off staff or undergone a major IT project; that is to say, larger organisations appear to be in a greater state of flux than smaller organisations.

Of note, an organisation's size appears irrelevant when it comes to collaboration and selling assets – small organisations are just as likely as larger organisations to have undertaken such actions.

Percentage of respondents who say their organisation went through a major financial/strategic change last year (by annual revenue)

	Annual revenue less than $50k (25% of the sample)	**Annual revenue $50k -$250k** (21% of the sample)	**Annual revenue $250k – $1 million** (21% of the sample)	**Annual revenue $1 – $10 million** (19% of the sample)	**Annual revenue $10 - $100 million** (6% of the sample)
Sold assets	3%	5%	3%	7%	11%
Merged with another organisation	4%	4%	4%	8%	12%
Replaced the CEO	6%	8%	11%	14%	13%
Laid off staff	3%	8%	13%	13%	17%
Underwent a major IT project	9%	13%	16%	26%	32%
Collaborated with another organisation to reduce expenses	24%	22%	26%	24%	28%

The darker the shade on each row, the higher the percentages. A change in the shade represents a change in statistical significance. Note: Results from only 84% of the sample are shown above. The remaining 16% comprises a mix of all other sectors. These results were not used in this table because the relatively small number of responses rendered them statistically insignificant.

It seems fair to assume that the worse shape your organisation is in financially, the more likely it may be to take major actions and restructure. We set out to test our assumptions by comparing organisations' financial health with actions they report having taken over the previous 12 months. The results are shown in the table below. Higher percentages appear in the chart with darker shading.

Of note, we found that:

- Organisations that are struggling financially are more likely to have replaced their CEO and to have laid off staff than organisations in good financial health.
- Organisations that are breaking even are less likely than either struggling or strongly performing organisations have undergone a major IT project.
- An organisation's financial health appears to have no bearing on its decision to sell assets or merge with another organisation.

Percentage of respondents who say their organisation went through a major financial/strategic change last year (by financial health)

	We are **struggling** financially (15% of the sample)	We are just **breaking even** (31% of the sample)	We are in **good** financial shape (54% of the sample)
Sold assets	8%	6%	5%
Merged with another organisation	5%	5%	7%
Replaced the CEO	15%	15%	8%
Laid off staff	15%	13%	9%
Underwent a major IT project	20%	13%	22%
Collaborated with another organisation to reduce expenses	26%	28%	27%

The darker the shade on each row, the higher the percentages.
A change in the shade represents a change in statistical significance.

Feedback/Recommendations/Next Steps

What do you make of these results? How should the sector, and those who work to resource and upskill the sector, respond?

Send your feedback to service@ourcommunity.com.au, tweet us at @OurCommunityAU, tag us on Facebook at @OurCommunity.com.au, and contribute to the conversation in our Facebook group, Not-for-profit Happy Hour Australia.

We'll incorporate feedback into our final report, which is due for release later in the year.

If you would like to be notified when further *ICDA Spotlight Reports* are released, join up as a member of the Institute of Community Directors Australia – visit www.icda.com.au to find out more.

About Institute of Community Directors Australia

The Institute of Community Directors Australia (ICDA) is Australia's best-practice governance network for not-for-profit boards, committees, councils, schools, and their staff.

An Our Community enterprise, ICDA delivers information, tools, training, events, qualifications and credentials to not-for-profits of all kinds. Activities include:

- Spearheading the Festival of Community Directors, a year-long program of events designed to celebrate and educate not-for-profit board members and the senior staff who support them
- Delivering Australia's premier nationally recognised qualification for not-for-profit leaders, the Diploma of Business (Governance) [in partnership with our partner Federation Training]
- Pioneering new governance training methods, including our landmark online compact courses
- Providing a suite of governance tools, including a range of practical helpsheets, templates and books, plus a free Board Matching Service and a free Policy Bank
- Face-to-face and online peer networking and support
- Regular newsletters to keep members informed and in touch

ICDA is led by the innovative members of the Our Community founding team, Denis Moriarty (Our Community Founder and Group Managing Director) and Patrick Moriarty (Institute of Community Directors Australia Executive Director), with input from the Our Community Board, comprising founding Chair Carol Schwartz and ethicist Dr Simon Longstaff.

Its work is guided by the Community Directors Council, which is chaired by Associate Professor Susan Pascoe AM, alongside 10 Australian community sector luminaries.

Find out more about ICDA at www.icda.com.au

This report has been prepared for ICDA by the Our Community Innovation Lab.

Visit: www.ourcommunity.com.au/innovationlab

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Appendix: What questions are analysed in this report?

- **Qu 7: What is your organisation's approximate annual revenue?**
  [Less than $50,000; $50,001 - $250,000; $250,001 - $1 million; $1 million - $10 million; $10 million - $100 million; $100 million +; Don't know/would rather not say]
- **Qu 8: Select the one of the main field in which your organisation works**
  [Agriculture, fisheries and forestry; Animal welfare; Arts and culture; Community development; Economic development; Education; Environment; Health; Human rights; Human services (including disability organisations); Information and communications; International relations; Public affairs; Public safety; Religion; Science; Social sciences; Sport and recreation; Other – please specify]
- **Qu 20: How would you characterise the health of your organisation's finances? (Please pick the statement that best describes your organisation's financial circumstances.)**
  [We are in good financial shape; We are just breaking even; We are struggling financially]
- **Qu 21: What proportion of the board do you think has a sufficient understanding of the finances of your organisation?**
  [All; Most; Some; Few; None]
- **Qu 24: Which of the following actions has your organisation undertaken in the past 12 months or does it plan to undertake in the next 12 months? (Leave blank if you're not sure or if neither column applies.)**
  [Collaborate with another organisation to reduce administrative cost; Merge acquire (or be acquired by) another organisation; Lay off staff (deliberately reduce staff numbers); Undergo a major information technology (IT) project; Replace CEO; Sell assets]