

NONPROFIT PULSE | FALL 2019

Change Management for a New Era



MARKS PANETH

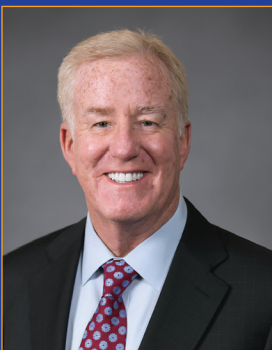
ACCOUNTANTS & ADVISORS

Welcome

For several years, Marks Paneth has conducted a nonprofit industry pulse survey for the benefit of our clients and the greater nonprofit industry. Our continuing work with nonprofit organizations is more than a professional practice. Because many of our clients serve the most vulnerable populations in the U.S. and abroad while facing continued challenges with sustainability, our research seeks insights on best practices, opportunities and strategies to help leaders manage change and fulfill their missions in exciting new ways.

That's why we chose the theme of change management for this year's survey. We know that change has expanded and diversified. Beyond traditional development and administrative concerns, change also includes future leadership, technology, tax reform and philanthropic vehicles. Based on survey results, we present this report to share what other nonprofit leaders are thinking about, concerned about and prioritizing in the midst of change. We look forward to your thoughts. Thank you to all nonprofit leaders who participated.

For any questions about our survey methodology and participants, refer to page 16.



Michael McNee, CPA
Co-Partner-in-Charge, Nonprofit,
Government & Healthcare Group
Partner-in-Charge, Attest Services



Hope Goldstein, CPA
Co-Partner-in-Charge, Nonprofit,
Government & Healthcare Group

Table of Contents

Key Highlights	4
Landscape of Change	6
Top Challenges	8
Biggest Opportunities	10
Recommended Strategies	12
Outlook for 2020	14
About the Survey	16



SURVEY PULSE

Key Highlights

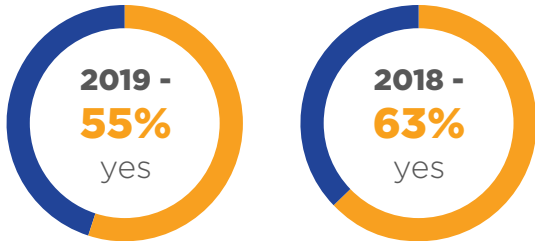
The 2019 Nonprofit Pulse Survey confirms several realities about the industry, but also reveals some interesting insights. For the second year in a row, a high number of leaders noted an unexpected demand for services as well as less available funding. After experiencing budget cuts and fairly high staff and board turnover in the past year, most leaders now indicate that board leadership and staffing have stabilized.

Most participating organizations have seen at least a slight increase in revenue, even as they have built up reserves. This reality helped about half of the organizations end their most recent fiscal year with a surplus. While levels of optimism are characterized as cautious going into the new year, it is evident that leaders are focused on planning ahead for potentially leaner times. To combat the unknowns of the coming year, they are focused on new sources of funding, building in succession plans and seeking next-generation leaders while improving their infrastructure to handle higher service demands.



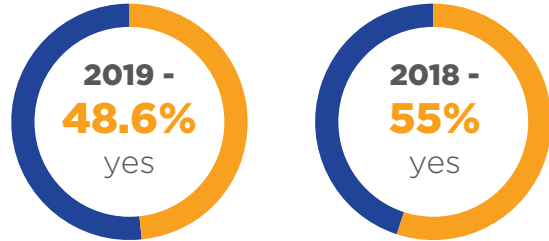
Increased Demand for Services – Driving Factor

Leaders foresee increasing demand for services, which is driving their risk assessment of funding and talent capacity.



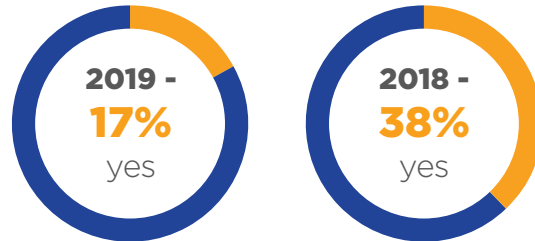
Surplus – Fairly Steady

Building and maintaining a surplus appears to be in response to anticipated increased demands for services.



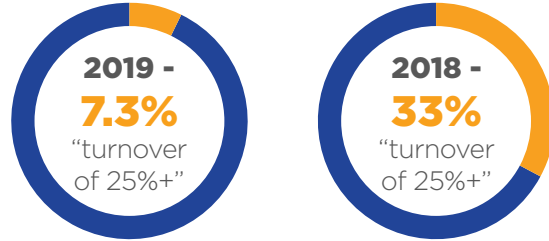
Funding Reductions – Stabilizing

Losses in funding appear to be stabilizing potentially with the identification of alternative funding sources, partnerships and M&A.



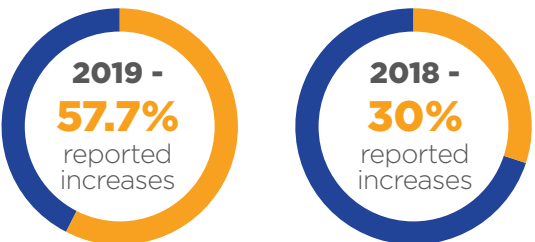
Board Leadership – Stabilized

Board turnover appeared to be much higher in 2017-2018 compared to the past 12 months. New board members may be open to trying new approaches to operations and funding.



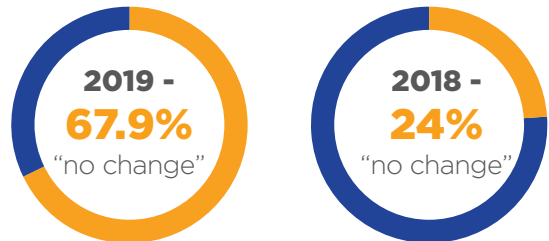
Revenue – Up*

More leaders reported increases in revenue, potentially due to donor behavior at the end of 2018.



Staffing – Stabilized

Loss of employees appeared to be much higher a year ago than in recent months. Also, 22 percent reported a “significant increase” in new employees.



* Some leaders noted that they had not received all year-end financials at the time of the survey.

LANDSCAPE OF CHANGE

Recruitment, Staffing, Funding

Determined.

This word characterizes the goal of nonprofit organizations represented in the survey. It means that leaders are storing up their resources, assessing their assets and identifying their risks in anticipation of potentially leaner times ahead. They are determined to sustain healthy organizations.

This attitude does not mean that tougher times will come. However, due to continued increased demands for services and less traditional public funding available, particularly noted by the 48 percent of leaders who identified their organizations as community and human service organizations, leaders say that the landscape of change requires more strategic planning. These leaders anticipate continued high demand for services by clients, patients, members and/or the public. At the same time, funding sources are diversifying and organizational models require more flexibility and creativity to attract and keep key talent.

New Recruitment Efforts

When asked about top threats to their organization, more than 40 percent of nonprofit leaders reported that finding experienced talent is their top threat. That compares to 27 percent of leaders who report that finding any new talent, regardless of experience, is a challenge.

New Staffing Models

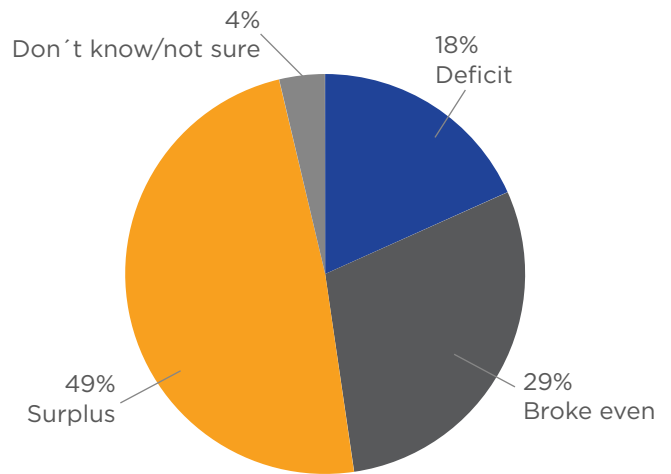
To manage the ongoing challenge of providing attractive salary and benefits, nonprofit leaders recognize the need to explore opportunities such as **flexible scheduling and remote work arrangements** as well as efforts to communicate a unifying and exciting vision to candidates and younger staff.

They also acknowledge the need to **communicate specific career tracks** for early to mid-career professionals in order to develop and retain those leaders beyond a few years. More than one-third of leaders report that their organizations are actively engaged in succession planning and that next-generation leadership is critical to their futures.

New Funding Sources

When asked about multi-year funding arrangements and donor-advised funds (DAFs), the overall pulse showed general uncertainty about their future impact on top-line revenue. However, leaders included these trends in their consideration of new funding sources and creative partnerships. They already understand the need to diversify organizational funding support long term, but some leaders acknowledged a lack of understanding about how to access DAF funding or whether it applies to them. A smaller percentage of leaders are considering merger and acquisition activity as a strategy for long-term planning and financial health. A few expressed challenges with large gifts or multi-year grants with regard to consistent budget planning and reporting.

Did your organization end its last fiscal year with a deficit, a surplus or break even?



Note: At the time of the survey, a few leaders had not received 2018 K-1s or were anticipating more accurate audit numbers.

Many leaders are focusing efforts during a relatively stable time to identify blind spots and do whatever they can to avoid getting caught off guard within finance, operations or staffing. More than one third of organizations are exploring new partnerships (35.4%), with either for-profit or other nonprofit groups.

When asked how they were faring financially compared to other nonprofit organizations, 41 percent of leaders said they are faring “slightly better” to “much better” than other organizations. About 34 percent compared themselves about the same to other organizations.

“We attract and hire many talented mid-level managers, but we offer few opportunities for advancement beyond that level. As a result, we lose many of them.”

- CFO/Controller, \$11 to \$24 million organization

TOP CHALLENGES

Planning for the unknown

Nonprofit organizations surveyed seem to be in a relatively healthy financial and operational condition — right now. However, leaders share concerns about replacing lost funding, managing unexpected legislation and developing next-generation leadership. Interestingly, talent is a bigger worry than funding or technology upgrades.



Recruitment Challenges

Reasons shared for recruitment challenges include less pay and benefits compared to for-profit entities. Leaders also cite less upward mobility or clear career tracks. Several leaders also note a challenge with getting younger professionals to engage in a mission beyond their own personal causes. About 23 percent of nonprofit organizations in the survey experienced a loss of key employees. However, another 22 percent cite a significant increase in employees. We will identify opportunities for talent recruitment among other insights in the next section.

Although about one-third of nonprofit leaders say that their organizations are actively recruiting talent, close to 60 percent of organizations cite the need for next-generation leaders now in the areas of fundraising and development. In last year's survey, more than half of the responding organizations lost key management staff.

New Reserves and Alliances

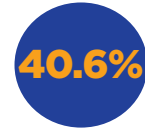
When leaders were asked how they are responding to these top threats, more than half are focused on raising more money and continuing to build reserves for what they anticipate as leaner times ahead. Another 35.7 percent are focused on succession planning and 32.3 percent are conducting risk assessments.

Planning appears to be internal, as only 19.8 percent report hiring outside consultants to assist with things like risk assessments or new staffing models. However, more than one-third of nonprofit organizations are managing threats by looking outside of their organizations to explore new partnerships with for-profit, government and other nonprofit entities. Also, 8.3 percent are considering merger/acquisition opportunities to optimize staffing and funding sources.

“Donors want to contribute to ‘new and cutting-edge programs,’ but they only give funding for one year. How do you hire people with such uncertain funding?”

- Board Chair, \$50 million organization

What are the Top Threats to the Future Success of Your Organization?



obtaining experienced talent



legislation negatively impacting funding



unforeseen crisis straining our resources



aging technology and infrastructure

BIGGEST OPPORTUNITIES

Visionary planning

About 91 percent of organizations participating in last year's survey noted turnover among their board members, anywhere from one to 10 board members (with average board size of five to 21+). In addition, 69 percent of organizations surveyed reported turnover in top management within the previous 12 months (2017-2018). This year's data shows more stability in both boards and staffing, signaling additional opportunities in the areas of strategic planning and innovative change.



Boards and Staff Stabilizing

The good news is that organizations surveyed this year report relatively stable boards and staffing compared to previous years when board turnover and loss of key employees was higher. **The influx of fresh board members and key employees may offer a prime opportunity to explore creative pathways for visioning the future of an organization. New board members and staff may be open to exploring new models rather than sticking to “how things have always been done.”** Here are some insights from survey data to consider:

Finances Healthier

With regard to revenue, almost half of reporting organizations ended their fiscal year with a surplus and 29 percent reported breaking even. In addition, slightly more than half of organizations reported some increase in revenue over the previous fiscal year. Although 26 percent of organizations reported the need to use endowment or reserve funds for operating expenses, this correlates fairly closely to the 18 percent of organizations that ended the fiscal year with a deficit and 17 percent that experienced a decrease in funding.

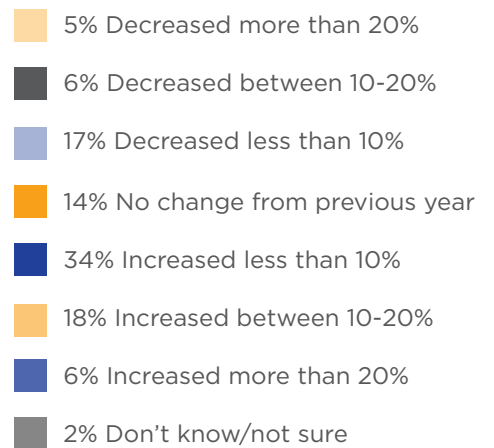
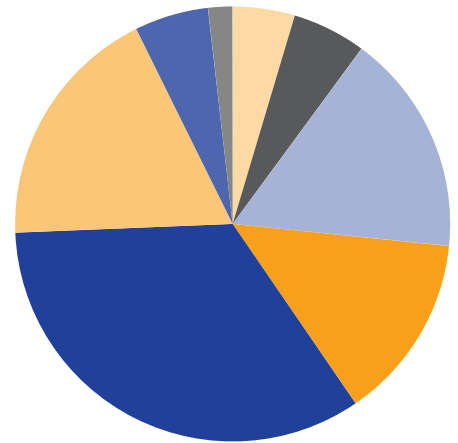
Three Opportunities

At the intersection of stable staffing and finance is the opportunity to establish performance benchmarks and creatively visualize how to operate differently in a dynamic economic climate. Where can organizations automate, communicate and innovate as a preferred employer and service provider?

Survey data provides three clues for the coming year:

- Improve workflow tools and automation to build efficiencies into the staffing model so that mid-level managers or program directors can focus more on achieving major initiatives or organizational goals;
- Explore more digital marketing to funders and opt-in donor opportunities that assist in personalizing their experience with the organization; and
- Identify public and private partnerships that improve referral support and visibility while maximizing assets and resources.

Revenue outcomes compared to previous fiscal year.



RECOMMENDED STRATEGIES

Creative engagement New work models

From a broad view of this year's survey, many of the same challenges experienced decades ago are still holding true today: attracting talent, increasing funding and managing demands for services. But today's leaders do have new resources and tools to help them along the way. Here are three to consider in your strategic planning process.





1. Explore new digital solutions

In an effort to ensure consistent funding year to year, most leaders noted a focus on seeking alternative revenue streams. However, only 17 percent identified donor/funding source educational initiatives and only 13.2 percent are focused on online donor tools. Of course, these specific efforts may not apply to every organization in the survey sample. However, some of the challenges cited in attracting talent, improving efficiency and sharing the organization's mission and vision could benefit from a greater focus on technological solutions and training. Leaders should assess the gaps in their current marketing, finance and operational management that could benefit from cost-effective digital tools and processes.



2. Invest in your talent

It is understandable that funders and donors don't rally around staffing and administration. However, there are examples of nonprofit organizations that attract many young and vibrant individuals to their cause regardless of the pay and benefits. It is heartening to see that 33.7 percent of leaders would consider outside help to conduct board and staff training programs. Meanwhile, 30.5 percent of leaders would consider consultants and advisors regarding employee benefits and compensation. This is the right time to invest in emerging leadership and encourage innovative ideas throughout your organization. Work with advisors to begin those conversations.



3. Head off risk

About 30 percent of leaders in the survey would seek outside assistance with risk assessment. While the economy, staffing and stakeholder optimism are fairly stable, now is the perfect time to review all aspects of your organization for risk. Assess short-term and long-term risks to build a plan for risk-proofing your organization. That way, the areas where you have less control — legislation, increased demand, natural disasters — won't seem as daunting.

OUTLOOK FOR 2020

Holding steady Making connections

In anticipation of an upcoming Presidential election and continued efforts to stabilize resources and staffing, leaders are remaining conservative on their expectations for 2020. They are not concerned about drastic changes to their tax situation or funding in a single year, of course, so the focus remains on long-term strategies to shore up lost funding and to build alliances.



Investments in infrastructure and technology will be moderate, with some focus on data protection and social/marketing tools as well as workflow tools to support efficiency. Organizations will continue to seek leaders and key staff who can energize fundraising and development efforts while also supporting technology investments and programming management.

“An operational surplus is expected in FY19 and total deficit for FY19 (due to expiration of multi-year grants), for which we will apply again in FY20.”

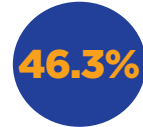
- CFO/Controller, \$1 to \$5 million organization

When asked about their expectations for revenue in the upcoming fiscal year, one third of leaders anticipated an increase in revenue of less than 10 percent while close to 12 percent of leaders expected increased revenue between 10 percent and 20 percent. About 22 percent of leaders expect their revenue to remain the same as the previous fiscal year. These conservative expectations correlate closely to last year’s survey responses, although most organizations experienced better revenue results than expected.

As for levels of optimism, only 17.4 percent of nonprofit organization leaders characterize themselves as “very optimistic” and 9.2 percent as “extremely optimistic” compared to a year ago. It appears that overall sentiment is fairly cautious as leaders leave behind strategies that no longer serve the organization. They will look to their colleagues — those newly appointed board members and hired staff — to help them define new measures of success. In addition, as they pursue strategic planning or risk assessments, leaders may reach out to additional advisors and consultants to identify gaps in their plans or develop new solutions.

In other words, nonprofit leaders are determined to manage change, but they don’t have to pursue the answers alone.

If leaders were to seek outside support, they prioritized the following areas:



Strategic planning



Fundraising and development



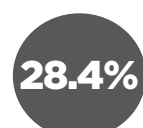
Benchmarking studies



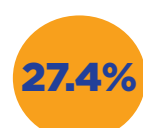
Board/Staff training programs



Employee benefits and compensation



Risk assessment and planning



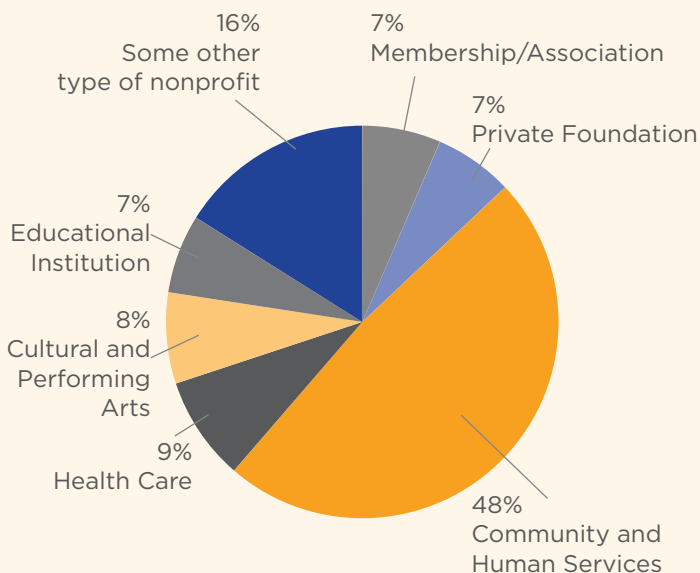
Cybersecurity/Disaster recovery plans

ABOUT THE SURVEY

The 2019 Nonprofit Pulse Survey by Marks Paneth represents an aggregated sample of executive and C-level leaders in either domestic or international nonprofit organizations. The survey asked leaders about levels of optimism, performance, biggest threats to their organizational success, solutions and several industry-specific questions around talent, tax impacts, funding options and planning. The total number of responding leaders was 196, however after filtering by organizational affiliation and title, a more accurate sample for analysis is 126 respondents. This represents a total response rate of 3 percent, which is well within survey response standards.

Adjusting for those numbers, respondents included 85.7 percent domestic nonprofit organizations and 7.7 percent international nonprofit organizations. Assuming 126 total respondents, the largest title responding is CFO/Controller (43 percent) followed by President/CEO/Executive Director (40 percent) and Board Member (25 percent).

Nonprofit organization you work for/with?



Responding leaders identified their organization type by multiple choice. The largest organization type selected was Community and Human Services (48 percent), and it outweighed all other types. About 16 percent of leaders selected Other and wrote in their preferred organizational descriptions, followed by 8.6 percent who selected Health Care, 7.5 percent who chose Cultural and Performing Arts, and 6.5 percent who each chose Membership/Association, Private Foundation and Educational Institution, respectively.

Organization sizes appear to range widely, with 18 percent of organizations reporting less than five

employees and just over 20 percent reporting between 101 and 500 employees. As for revenue, the majority of organizations selected \$1 million+ in revenue, with 44 organizations reporting revenue between \$1 million and \$24 million, 12 organizations reporting revenue of \$25 million to \$50 million and 20 organizations reporting revenue of \$50 million or more. About 18.4 percent, or 17 organizations are below \$1 million in revenue.

This publication contains general information only, and Marks Paneth is not, by means of this publication, rendering accounting, business, financial, investment, tax, legal or other professional services advice. This publication is not a substitute for such professional guidance or services, nor should it be used as a basis for any decision or action that may affect your organization. Before making any decisions that may impact your organization, consult a qualified professional advisor.

Survey results reflect an aggregate of total responses, analyzed and prepared by a third-party consulting agency. It is not, nor is it intended to be scientific in any way, including in its number of respondents, selection of respondents or response rate. Accordingly, this pulse survey is based on opinion only and does not necessarily indicate economic or industry-wide perceptions or trends.

The results of the 2019 Nonprofit Pulse survey were released at Marks Paneth's 4th Annual Nonprofit Industry Update seminar on October 3, 2019. For more information on events hosted by the firm's Nonprofit, Government & Healthcare Group, and other helpful industry resources, please visit markspaneth.com.

About Marks Paneth

Marks Paneth is a premier accounting, tax and advisory firm that is ranked among the 50 largest accounting firms in the nation and the top 10 in the Mid-Atlantic Region. Headquartered in New York City, with offices in major markets throughout the East Coast, the firm provides a full range of services to individuals, businesses and nonprofits to help them plan and achieve their respective goals. Marks Paneth's Nonprofit Practice proudly serves 20 percent of New York's largest charities, as ranked by Crain's New York Business. With more than 60 dedicated industry professionals, Marks Paneth is committed to helping nonprofits meet their compliance requirements and protect their reputations with sound financial reporting and transparency.