



# ***Not-for-profit Sector Survey***



## About the survey

Pitcher Partners and Russell Kennedy Lawyers launched their first joint not-for-profit (NFP) survey in 2015 to research the sector and identify key indicators and metrics of sector health and performance. In its third year, the survey aims to support NFP organisations and charities to benchmark themselves against their peers across a range of governance and operational metrics.

The survey research covers topics such as governance, strategy, fundraising, risk management and the use of volunteer and professional resources.

Pitcher Partners and Russell Kennedy Lawyers thank all respondents for participating in and contributing to the survey. We hope you find the report and analysis to be a valuable contribution to the NFP sector as it evolves.

Yours sincerely,

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Pitcher Partners

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Thank you

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# Overview

Welcome to the Not-for-profit Benchmark Survey Report 2018-19. Brought to you by Pitcher Partners and Russell Kennedy Lawyers, the report captures insights from Australian NFP organisations, providing information regarding the challenges and opportunities facing the sector.

More than 150 NFP organisations from a range of industries including aged care and disability, research and education, health and social support and more took part in the 2018-19 Not-for-profit Benchmark Survey, responding to questioning regarding governance and compliance, fundraising and financial performance, staffing and resources, and data and technology.

In this report, we reveal the pressures facing NFP organisations, from funding and finance, through to compliance and staffing, and consider the strategies many organisations are pursuing to meet the changing needs of the industry, funders, donors and partners.

We also examine the trends driving industry growth and consolidation including the impact of changes to regulatory policy, funding models and both staff attraction and retention.

## Major sector insights



### Strategy

Many NFPs are focussing on three key strategy solutions to address sector challenges: focusing on service delivery, achieving growth, and implementing technology.



### Governance

More than two-thirds of organisations surveyed acknowledge that compliance requirements have increased in the last 12 months, with specialist governance committees emerging within Boards.



### People and Culture

The continued high turnover of staff, as well as the cost of upskilling, recruiting and remunerating skilled staff, present a challenge for the NFP sector.



### Technology

Technology is being embraced by the sector to improve client care and protect data, with Customer Relationship Management systems (CRMs) being implemented, and firewalls and encryption used to enhance security.

# Strategy in the NFP sector

The NFP sector is increasingly embracing organisational change, as required with the shift to a competitive landscape for many sectors. Whilst corporate business quickly recognised the economic imperative to change in order to survive and had the resources at their disposal to do so, NFPs have sometimes been slower to change.

For a sector sometimes characterised as being in turmoil, there continues to be a rocky road ahead for NFPs. In fact, NFP organisations indicated that they expect their challenges to remain constant for the next 12 months. In our most recent survey, 48% of NFPs saw funding as their biggest current challenge; and finances are anticipated to be their biggest ongoing challenge.

Buffeted by external factors, such as policy change, digital disruption and the arrival of new competitors, NFPs have experienced the knock-on effect of these internally. Consistent staffing, robust service delivery and steady growth are difficult to maintain in a sector expected to keep up with compliance changes and operate on tight budgets. Almost 42% of NFPs identify staffing as a challenge in the future, and 41% feel it will be difficult to achieve their desired level of growth.

Increasing Federal Government compliance requirements have impacted almost 48% of organisations, creating additional demands of reporting to funders, donors and partners, who believe this is always important (51%) or usually important (20%). In contrast, over 60% of organisations find that compliance with external regulatory requirements only sometimes – or never – adds real value to their offering; suggesting that compliance reporting takes up valuable time that organisations feel could be directed to more important tasks.

Many NFPs have shown great resilience in the face of these challenges, and are undertaking cultural and organisational shift in order to remain viable. Sixty-eight percent of organisations are experiencing 'significant organisational change', driven by funding models (59%), shifting customer need (44%) and increased regulation and compliance (42%). Forty-five percent of NFPs are updating their strategic business plan every year, and 57% are overhauling their business models. NFPs are increasingly going it alone – with more than half not pursuing a merger.

There is a clear drive in the NFP sector to focus on the consumer. New client directed care models are resulting in an organisational shift, with almost 49% of organisations seeking to increase customer value. This is underscored by NFPs' reporting priorities: 57% report on both client services and client outcomes, and 37% would like to improve their reporting on client satisfaction.

Technology is an important enabler of this shift in attention to the consumer. Seventy two percent of organisations have invested in new technologies to help respond to challenges. Client management systems, which allow organisations to track client contact, service delivery, feedback or outcomes, are by far the most popular software introduced to NFPs. Forty percent of organisations have implemented one; with accounting software a distant second at 18%.

Overall, there are three key strategy solutions to challenges: focus on service delivery, achieve growth and implement technology solutions that enable tracking of customer interaction. Organisations must become true service organisations, operating in a structured and compliant manner.

## 5 strategy questions for your NFP

Is the organisation's strategy driven by its mission?

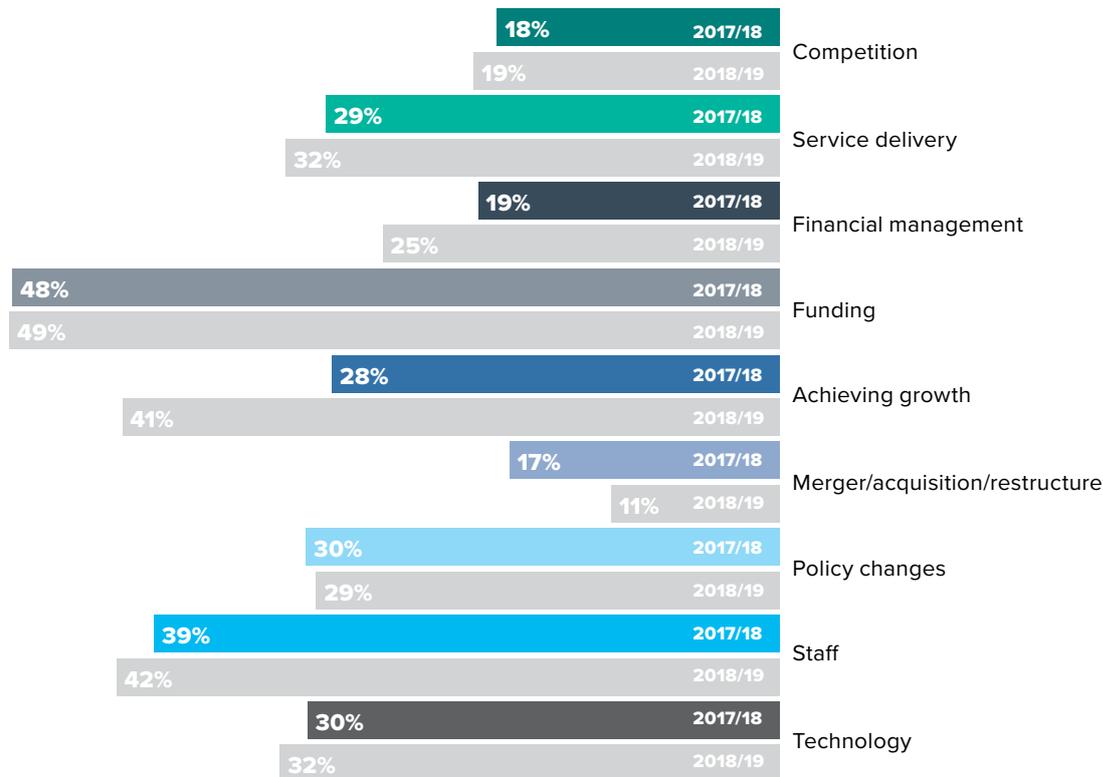
Is the strategy focus on the client and what can be executed effectively, rather than on growth?

Is strategy execution supported by the appropriate investment in the organisation?

Is strategy realisation actively tracked or measured?

Is strategy contributing to the development of a self-sustaining organisation?

## What were the most significant challenges for your organisation?



## Main areas of changes

Many organisations are experiencing change, particularly in the following areas

**59%**

**Funding models**  
(e.g. NDIS, Aged Care, Consumer Directed Care etc)

**44%**

**Shifting customer need**

**42%**

**Increased regulation and compliance**

**31%**

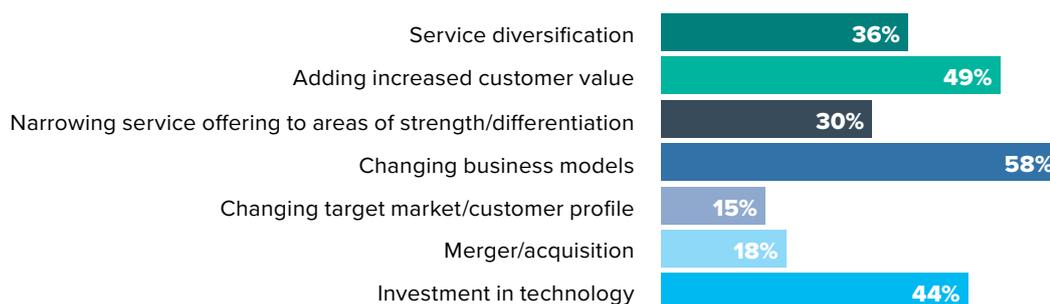
**Increasing competition from other NFPs**

**27%**

**Increasing competition from for-profit organisations**

### Strategies for tackling change

In response to changes to operating environments, many NFP organisations are considering strategies to adapt



# Defining governance

Governance and risk compliance play an increasingly critical role in organisational success. No longer is good governance simply the realm and responsibility of large NFPs. Governance requirements have trickled down to small and medium NFPs as regulatory requirements and business environments evolve.

Importantly, a growing number of organisations are recognising that sound governance isn't simply about mitigating risks. While risk forms part of a strategic governance framework, many organisations now realise opportunity benefits are an equally important component, playing a significant role in helping organisations to protect and realise organisational objectives.

More than 68% of NFP organisations that participated in the Pitcher Partners and Russell Kennedy Not-for-profit Sector Survey acknowledged their organisation was undergoing significant change, driven by challenges in funding, staff retention, service delivery and growth, with more than half of all organisations surveyed (58%) believing that changing their business model was the most critical factor to addressing the above challenges.

A robust governance program assists organisations in responding to a changing environment, increasing adherence to regulatory compliance requirements while also increasing the likelihood of program success. Applied at a strategic level, a governance and compliance framework can assist organisations in assessing and prioritising investments, and identifying which investments align with both short and long-term strategic organisational objectives.

More than two-thirds of organisations surveyed acknowledge that compliance requirements have increased in the last 12 months, with 21% of respondents stating the increase had been significant. While increased compliance requirements meant changes for many organisations, most acknowledged the benefit of external regulatory requirements, particularly given the importance of compliance to funders, donors and partners.

As expected, many organisations recognise the importance of board visibility when it comes to finances, audit and risk, with the majority of surveyed organisations confirming that these functional areas were overseen directly by the Board. A change in findings is the increased prevalence of a governance committee of the board, flagging the heightened focus of organisations on this specific aspect of their own operations, rather than leaving it in the realm of the broader board remit.

Consistent with the strategic challenges, boards are increasingly overseeing the challenges of strategy and culture, via a committee, while it is acknowledged that the trend is not yet statistically significant across all respondents.

Organisational performance measurement and monitoring identifies an interesting division between organisations. Respondents to the survey clearly identify two camps of data reported up to boards. Financial information as a basis for monitoring is well represented, however surprisingly there was a significant proportion of organisations (42%) that were not reporting qualitative data such as clients serviced or client outcomes as part of the oversight function.

Digging deeper, when asked what other information would be useful, metrics around staff utilisation emerge ahead of an organisation's outcomes for clients and their satisfaction levels. This suggests that much of the monitoring is still process rather than outcome focused.

The survey identifies that the sector is still reliant on oversight by committee, and frameworks but not doing enough to actively monitor risk management. Only half of the organisations responding to the survey identified an active internal audit function to get beyond the policies and registers to see what is actually occurring within their organisation.

## 5 governance questions for your NFP

**Is board oversight of management effective, with awareness of current and emerging issues and challenging management assessment and decisions?**

**Are accountabilities clear and enforced?**

**Are issues, incidents and risks identified and escalated with urgency for resolution?**

**Is the risk management framework operational, or does it work better on paper than in practice?**

**Is the risk management framework supported by a mature and sufficiently resourced compliance team?**

# A snapshot of compliance

## Managing risk

While two-thirds of organisations surveyed have a risk management framework, only half of respondents indicate they undertake internal audit, which means risk procedures aren't always monitored and maintained. Furthermore, many organisations do not undertake external audit as an additional measure. Almost 10% of organisations surveyed do not have any formal risk frameworks in place and instead are reactive to risk issues.



**Risk management framework**



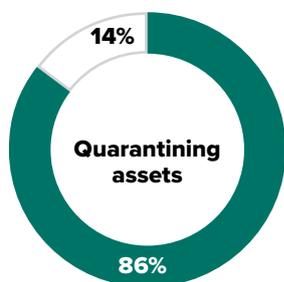
**Risk management committee**



**Risk register**



**Internal audit**



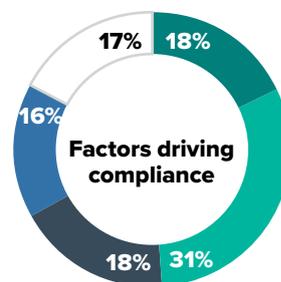
■ Yes  
□ No

While most respondents stated their organisations actively monitors current assets and quarantine a component to meet solvency obligations, almost 15% of respondent organisations did not.



■ Increased significantly  
■ Increased somewhat  
□ No change

More than two-thirds of organisations acknowledge that compliance requirements have increased, with 21% of respondents stating the increase had been significant



■ Requests from the board  
■ From federal government  
■ From state government  
■ From the regulator  
□ Other

Drivers of increased compliance derived largely from regulators including state and federal government, and boards themselves – the latter unsurprising given increased exposure to personal liability for board members during the last year

Holistically, governance encompasses organisational systems and processes, the segregation of duties, allocation of formal authority, workplace culture and employer obligations and how risks are identified, managed and mitigated. For organisations, it forms the solid foundation that keeps day-to-day operations on track and above board, allowing them to proactively manage change and challenges.

Effective governance frameworks have demonstrated success in protecting organisations against ever increasing cybersecurity threats, ensuring compliance with employer entitlement calculations and processing including superannuation and wages, as well as protecting against internal fraud, theft and negligence.

Governance provides far more than 'public accountability' and has a key role in promoting good business practices throughout the economy. It reduces likelihood of business failure and equips organisations with the tools and thinking to develop management practices that support realisation of opportunities while mitigating risks.

# People and culture

With 45% of NFPs experiencing a shift in client needs, the skills of the people within the organisation need to change to meet the new demands.

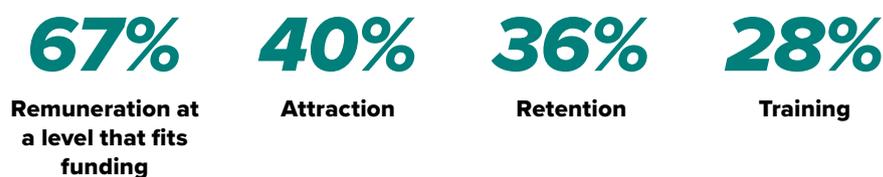
The NFP sector often faces the challenge of high staff turnover, but can also have, a committed core of staff who are passionate about the work of their organisation. The drive for more consumer-focussed care, and the corresponding organisational shifts this has required, present ongoing challenges for staffing. Almost 40% of NFPs find staffing to be a challenge – second only to funding. In 2019, they anticipate this to be a continued challenge.

Upskilling current staff or recruiting new staff comes at a financial cost. Almost 67% of NFPs find “remuneration at a level that fits funding” to be their major staffing challenge. It is known that workers in the NFP sector are not necessarily driven by money, but seek deeper satisfaction from their work. However, 40% of organisations find it difficult to attract new staff and 36% find it challenging to keep them.

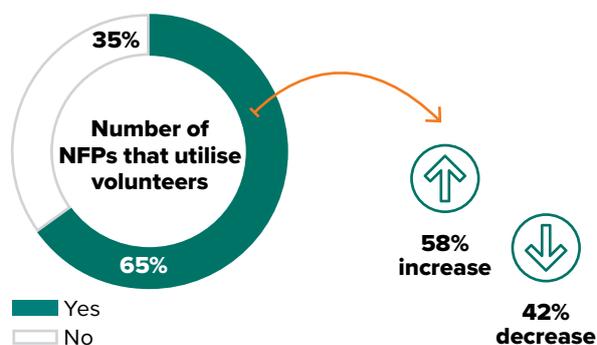
NFPs are currently not tracking and reporting on staff utilisation in depth – but it is an area which 43% of organisation wish to improve on. This suggests that staff allocation across projects is not being maximised to full effect. The introduction of CRMs across many organisations (40%) suggest there is an opportunity to capture data about staff, as these systems can track which staff are allocated to particular projects and clients, their level of interaction and the outcomes related to their activity.

The use of volunteers is also changing. Of those organisations surveyed, who were predominantly large organisations with an annual revenue of \$1 million or more, 57% have 5% or less volunteers on their staff. The general trend however, is that the use of volunteers is increasing. Fifty-eight percent of organisations who use volunteers are increasing their numbers.

## What are your organisation’s major staffing challenges?



Almost 65% of NFP organisations utilise volunteers as part of their workforce, with as few as 1% and up to 100% of workers volunteers



## **Key staffing issues**



**Attracting and  
retaining staff**



**Remuneration**



**Increasing use of  
volunteers**



**Staff utilisation**

## **5 people and culture questions for your NFP**

**Are the board and executive united on the culture of the organisation?**

**Does the board have a means to monitor the organisation's culture and ensure it is as expected?**

**Are management transparent with all staff as to reasons and impacts of organisational changes?**

**Are all staff being supported and trained to work effectively in a changing organisation?**

**Are well-regarded staff being protected, fostered and developed for retention and culture?**



# Technology

For a sector in a state of flux – buffeted by both external and internal changes – technology is considered an enabler of solutions to respond to business challenges.

NFPs are increasingly feeling challenged to achieve growth (41%), improve staffing (41%), improve service delivery, and meet new policy requirements (29%). In the face of increased expectations and compliance requirements, it is not surprising that they have turned to technology to help manage their processes and procedures. Forty-four per cent of NFPs report increasing their investment in technologies, with 72% specifically using new technology to address new challenges.

In particular, Customer Relationship Management systems (CRMs) are the top technology tool being implemented, with 40% of NFPs introducing one. With the shift to consumer directed programs this investment is hardly surprising. These tools enable NFPs to increase visibility over their activity, allocate staffing and resources more efficiently, measure their impact on customers, and report with greater accuracy to funders and boards. With the top reporting demands being for metrics around client services (57%) and client outcomes (57%), CRMs will support the 48% of CFOs to achieve their goal of working to add value for customers.

In an era where data is at increased risk of attack, it is crucial that NFPs maintain their sensitive client data with care. Privacy and data regulations around the world are evolving, and every organisation is challenged to balance the potential value of capturing data digitally, with the impending risks associated with its care.

Hearteningly, an overwhelming 92% of NFPs actively protect their data using technology security such as firewalls and encryption (93%). However, 54% also report protecting their data physically. This reflects that data may still be being collected on paper or on digital tools such as USB and hard drives in some instances – an area that will need to be addressed carefully to be fully compliant with the Australian Privacy Act.

## ***5 technology questions for your NFP***

**Is technology creating a more mobile or agile workforce responding to the needs of your community?**

**Is technology providing clarity and new insights to operational drivers or performance?**

**How are you utilising the significant amount of data captured by your technology?**

**Has technology removed the manipulation of data outside systems?**

**Is technology being leveraged to create and engage with your community?**





## Pitcher Partners

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Pitcher Partners is an association of accounting and business advisory firms located in Adelaide, Brisbane, Melbourne, Newcastle, Perth and Sydney. We have a strong reputation for providing personal service and quality commercial advice to our clients across a broad range of industries.

We specialise in providing services to family controlled, privately owned and small public businesses as well as high net worth individuals, the public sector and not-for-profit organisations. Our clients require high technical standards, matched with a personal understanding and involvement in their affairs.

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## Russell Kennedy

At Russell Kennedy Lawyers, we are committed to providing exceptional legal services and solutions to our clients in the not-for-profit sector, consistent with our desire to make a difference to the community.

We've supported not-for-profits for more than 30 years and have a deep understanding of how expanding legal and compliance requirements are impacting their ability to operate effectively and provide services to the community.

We provide clear and practical legal guidance that adds significant value to those we work with. Our not-for-profit lawyers serve on the boards and advisory committees of many charities and not-for-profit organisations.

Our clients include charities, health and aged care organisations, education providers, disability services, housing providers and industry associations. We advise on corporate governance and regulatory compliance, funding and fundraising, protection of intellectual property, charities legislation and tax law, and operational aspects including property, employment, workplace health and safety and dispute resolution.

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