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Philanthropy Pros: Priorities & Pain Points

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"Is my organization normal?"

That's **one of the most common questions** the philanthropy experts at **BDO** hear from organizational leaders. And because of the diversity in the sector – mission, scope, size – the matter of evaluating "performance to ensure sustainability" is a "perennial challenge" for these people in the trenches.

For the last three years, BDO's Institute for Nonprofit Excellence has conducted and published a major "benchmarking" survey, ***Nonprofit Standards***, so its clients and all sector leaders will have data needed to make good decisions.

New Philanthropy Survey

The latest *Nonprofit Standards* (June 2019) is **here**: a well-presented, 44-page report. There's also a handy summary presentation **here**; it's among the most visually appealing and helpful presentations we've seen recently.

It's fun to read. Well – almost fun. It's fair to say that most folks reading this blog already have a keen interest in all things "philanthropy" as well as what friends and family occasionally refer to as an odd sense of what's a "good time."

Like the earlier two reports, this latest one "outlines key issues and trends in the sector and helps nonprofits do just that with data across a variety of areas – including strategic planning, human resources, operations, scope and impact, and governance matters."

The top survey findings focus on (1) the continuing risk of falling into the "starvation" cycle; (2) a surge of interest in technology; (3) the jump in regulatory and legislative challenges; and (4) the balancing act of making employees happy. The fifth category reports on the "unique challenges" faced by health and services organizations. (HHS organizations comprise the largest share of respondents to this benchmark survey.)

- ***Nonprofits Risk Falling Into the Starvation Cycle***

Because mission is so central to nonprofit organizations, respondents report there is continuing pressure internally and externally to "direct most of their spending toward programs." Seventy-two percent of them generally allocate 80-100% of their budget to "program-related expenditures."

But this sets up them up for the "starvation cycle." We've written previously about this philanthropy-sector-wide problem. When organizations, year after year, underfund "vital infrastructure like technology and employee training" and compound that deficiency with inadequate operating reserves, they put long-term financial stability at risk.

The BDO Survey defines "operating reserves" as "liquid, net assets without donor restrictions." These experts make clear that there is "no 'right' amount of liquidity" because it "varies according to organization size, sector, and scope." But they generally recommend a goal of having at least six months' operating reserves. Sadly, some 63% of survey respondents do *not* meet even that level of preparedness.

"In the face of funding scarcity, liquidity becomes even more critical." Nevertheless, nonprofits downplay its importance. Just 39% of respondents cite "seeking new sources of revenue or funding" as their top priority. And a surprising 60% of respondents say that "adequate liquidity" is either a "low" challenge" for them in the next twelve months or "no challenge" at all.

- ***Technology is a Priority, But Nonprofits Favor Those With Clear ROI***

Nonprofits report a "boom of activity related to technology and digital disruption." Nearly 64% of respondents are planning to invest in new technologies in FY 2019; among CEOs and presidents, that answer jumps to 75%.

But the "breadth of available technologies" is "overwhelming." When asked to prioritize their planned purchases, a majority favor "management platforms and software" (66%) and "data analytics" (56%). About 33% expect to make investments in automation. Respondents report being hampered in connection with technology investments by lack of finances as well as insufficient technical expertise already in-house.

- ***Regulatory and Legislative Challenges Are Growing***

Respondents cite the Tax Cuts and Jobs Act of 2017 (TCJA) as a key challenge. They point to troublesome and confusing new rules including those related to fringe benefits and executive compensation. They also cite the indirect negative effects of the doubling of the standard deduction on their fundraising capabilities.

In addition to the TCJA changes, there are "new data and financial privacy reporting regulations" imposed on nonprofits as well as amended FASB revenue recognition standards. "It's no surprise that nonprofits are feeling stressed by regulations." Nearly two-thirds of respondents say that "time and effort to deal with government regulations and legislative changes" will be a "high or moderate challenge" this year. That's a big jump from the 45% of respondents on last year's survey to the same question who checked off the box for "high or moderate challenge."

- ***Mission + Compensation = Employee Satisfaction***

"Regardless of its scope or mission, a nonprofit's greatest resource is its people." With limited resources, getting and keeping talent is challenging and "compensation remains a critical element of the employee satisfaction equation."

Respondents were asked about how they view "compensation levels" as an issue challenging them. The answer from 78% of those completing the survey is "high or moderate."

But compensation satisfaction is not alone enough for employee satisfaction; nonprofit personnel need to feel connected to the mission as well. But nearly a quarter of respondents (24%) report a "disconnect from the mission" as a "high or moderate challenge," and this problem increases during times of organizational financial stress.

The BDO experts observe that, for nonprofits seeking the best talent, a solid mission must be tied to adequate compensation.

- ***Health and Human Services Organizations Face Unique Challenges***

More than a third of the respondents to this year's benchmarking survey are health and human services organizations that "operate in conjunction with both the public and private sectors to reduce expenditures and improve the delivery of services." They face "unique challenges" like "rising operational costs, funding deficits, and increased demands for transparency."

As such, 31% of respondents from the HHS sector note they "meaningfully expanded the scope of their mission in the past year." That's considerably higher than the 18% figure listed by the "other [non-HHS] organizations surveyed." This anomaly may result from higher demands for their services, "potentially as a result of shifting socioeconomic forces."

Along with meeting the increased need for their services, HHS respondents cite "growing and expanded staff" as their top priority (17%). That's much higher than the 5% figure cited by "other organizations." And while sometimes there is an increase in government funding to meet the larger demand, the HHS respondents report that the public funding doesn't sufficiently cover overhead costs so the "starvation cycle" is a disproportionate threat to this sub-sector.

Another challenge hitting the HHS sector hard is that more of their funders want more information. Of the HHS respondents in the survey, 65% report that more than a quarter of their funders recently "asked for more information on outcomes and impacts."

Specifically for board leaders participating in the survey, when asked to name their top challenge, more HHS respondents (64%) cite "succession planning" than non-HHS survey participants (54%). HHS organizations also report "disproportionate challenges" for cybersecurity – likely because of the massive amounts of personal data these organizations collect and store.

Conclusion

The full *Nonprofit Standards* survey, of course, delves deeper into these five top-reported findings and includes additional useful observations and conclusions on these topics.

For the record, the other responses to the "top priority" question include: updating/revising programs (16%); "other" (12%); transforming digital capacity (11%); measuring impact (10%); growing/expanding staff (9%); and increasing board/staff diversity (3%).