

# The foundations of a well-run not-for-profit

good   
foundations

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# Foreword

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Australian Not-For-Profits (NFPs) contributed almost \$55 billion to the Australian economy, and employed over 1 million people in 2012-2013, according to the Australian Bureau of Statistics. This contribution is a \$22 billion increase compared to 2006 - 2007 data, despite the Global Financial Crisis. Moreover, this economic contribution does not take into account the many valuable hours of work volunteers contribute to the sector and their beneficiaries. Whatever indicators you choose, they demonstrate that the NFP sector is big and significant.

Unlike for-profit entities, the success and impact of not-for-profits is more difficult to measure. The Good Foundations survey on what constitutes a 'well-run' NFP and the correlation of being 'well-run' to impact, aims to ignite discussion and debate around what it is exactly that indicates a 'well-run' not-for-profit organisation.

We know the term is ambiguous – the very reason why we conducted this survey. The aim of this survey is to drill down into more detail about what people mean when they say *“I work for a well run not-for-profit organisation”* or *“I only support well-run organisations.”*

The 250+ respondents to this survey represent opinions from employees within the sector, as well as major gift donors. We hope that the findings in the survey will spark discussions in the sector

and prompt people to reflect on how well their organisation fares in each of the criteria discussed which are seen as key to being 'well-run'. If each organisation considers just one of the key elements and improves how they perform in that area, then the sector will start to be, and be seen to be, better run which can only be a good thing for all stakeholders.

We understand this may be a complex and somewhat controversial topic to discuss, as there can be many valid views – we need to remember that we are still a 'for-purpose' sector and we need to find a way to blend our purpose and hearts with the business acumen needed to be effective in delivering missions and ultimately providing benefits to the people each organisation serves. We hope that this report acts as a starting point to finding that optimal balance.

We'd like to thank PwC and People for Purpose for their assistance in both designing the survey and distributing it across the sector to ensure we captured a wide range of respondents. We'd also like to thank EQ Road for their assistance in designing the survey.

# Executive Summary

The results of the survey were quite clear - the two key aspects that organisations need to focus on to be 'well-run' above all else are:

**Being crystal clear on your purpose, vision and direction**

**Having great people, with a particular focus on great leadership**

Without these two elements it appears that it will be hard for a NFP to be considered 'well-run'. This may seem obvious to some but we have evidenced plenty of organisations who cannot articulate well and succinctly why they exist, where they are heading and what future they would like to see. And we know what a struggle it is to find and retain good people given the constraints in which the sector works. As one of our respondents so clearly stated, "It is key to clearly articulate the purpose of the organisation – and revisit it regularly to ensure you are still doing what you think you are doing."

The perception across the respondents was that there is more work to do to be a 'well-run' sector, with just 36% of those surveyed being able to agree with the statement "the majority of Australian not-for-profits are 'well-run'."

It was pleasing to see that employees in the sector and major gift donors equally viewed '*low administration and fundraising ratios*' as the least important of the 21 possible criteria we asked respondents to comment on. We expected this result from those working in the sector, but to see it ranked so low across the major gift donors was encouraging to see. Furthermore, 61% of donors stated that they did not see fundraising and admin ratios as a critical factor. It is pleasing to see donors shifting their focus to other factors when assessing who to support.

We were rather surprised though to see the '*use of rigorous methods for measuring impact and program outcomes*' and '*using evidence based research to design and impact programs*' rank relatively lowly as criteria that are important in being 'well-run'. Because there is much focus on outcomes and impact (as opposed to outputs) at present in the sector we thought there would be more comment on this. Perhaps it is the difficult nature of measuring social impact and outcomes that made respondents rank it relatively low.

The importance of having great leadership and people will not come as a surprise to many. The harder question is how to attract and retain more great talent in the sector. It is our view that people, purpose and impact are interrelated as issues that can be solved together – if an organisation is really clear on why it exists (its purpose) and can demonstrate real and meaningful outcomes and impact, we believe more people will be attracted to the sector.

We have seen too many good people come and go from the sector (or not come at all) after being disillusioned by the unclear purposes of organisations and the lack of focus on ensuring organisations are delivering worthwhile programs that make a difference. Improving the measurement and communication of the impact of those programs, and learning from the process to further improve outcomes and impact going forward should certainly assist in this regard.

# Perceptions

## Are the majority of Australian NFPs well-run?

Almost two in three respondents either disagreed or were neutral to the statement “The majority of Australian NFPs are well-run”. There appeared to be widespread acceptance across those involved in the sector that there is much to do in terms of creating a sector of ‘well-run’ organisations.

Only **2%** of respondents strongly agreed that the majority of Australian not-for-profit organisations are ‘well-run’. **34%** agreed with the statement.

**22%** disagreed, and **4%** strongly disagreed leaving the majority of respondents, **38%**, as neutral about the statement.



## Is your organisation well-run?

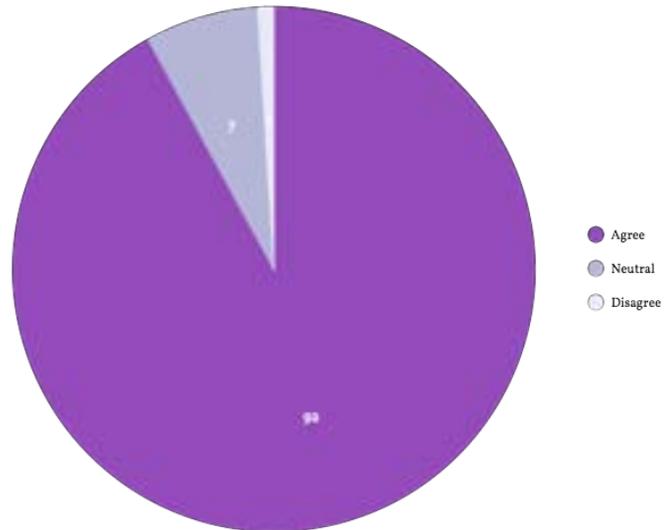
Respondents had a more positive outlook regarding their own organisation. Overall, **76%** agree to some extent that their organisation is well-run. **10%** were neutral and **14%** disagree to some extent that their organisation is well-run.

Perhaps this indicates an obvious higher level of knowledge as to their own organisation than the sector in general and is perhaps symptomatic of the thinking that drives “90% of respondents think that they are a better than average driver”, which of course cannot be true.

# Perceptions

We asked respondents if being well-run has a significant correlation to delivering more impact. 92% of respondents agreed or strongly agreed that being well-run has a significant correlation to delivering more impact.

We are pleased to see respondents believe this is the case as we believe it too. To us, this justifies allocating time and resources to explicitly focus on what organisations can do to improve their efficiency and effectiveness. Hopefully this message will flow through to donors and other funders of the sector as to how important building a sound platform (or a good foundation...) is to a not-for-profit so they can keep delivering great impact.



"It is important to set up a good evaluation framework that allows the organisation to monitor regularly whether the organisation is doing well, not just assume it is. A framework that allows improvement and adjustments over time.."

- Survey Respondent

# Elements

The survey asked respondents to comment on 21 elements that we identified as proxies to indicate whether a not-for-profit is well-run. Each element had a score from Extremely Important (7) to Extremely Unimportant (1). We are quite surprised that regardless of whether the respondent was a donor or employed in the sector, the list was almost identical – it is for this reason we combined results to produce the list below. The first element in the list is deemed to be the most important, while the percentage next to each element represents how many respondents rated elements as extremely important or very important (scores of 6 or 7).

1.	It has effective leadership	96%
2.	It is clear about its vision, purpose & direction	95%
3.	It has effective staff	94%
4.	It is accountable and transparent in its performance	90%
5.	It always operates consistently in line with its mission and vision	90%
6.	It has a clear and well documented strategic plan, reviewed regularly	87%
7.	It continually seeks to improve its performance and efficiency	87%
8.	It has a strong, well-balanced board	87%
9.	It is clear on how it measures success	85%
10.	It complies with all relevant regulation & legislation	83%
11.	It communicates effectively with key stakeholders	80%
12.	It has an excellent governance framework in place	78%
13.	It uses evidence-based research to design & improve programs	77%
14.	It has strong internal control systems in place	72%
15.	It has rigorous methods for measuring impact & programs	68%
16.	It has diversified income streams	68%
17.	It has clear policies and procedures and ways to adhere to them	63%
18.	It collaborates regularly with other not-for-profits	41%
19.	It uses outsourced providers where appropriate and cost-effective	35%
20.	It has manuals that outline procedures for all aspects of its business	34%
21.	It has a low fundraising and admin ratio	31%

# Australian Leaders



In order to get some real life examples, we asked respondents to name two Australian NFPs who they consider to be 'well-run' and why they thought that. 149 unique organisations were mentioned so there were no standouts in terms of clear leaders. Regardless of who respondents chose as their top two organisations, reasons relating to **strong management** and **being clear on purpose and vision** were again overwhelmingly the most common explanations. Overall, World Vision was the most frequently mentioned organisation (with 17 responses). We had a concern it was just the 'brand names' that were included, however many smaller organisations were mentioned and many other household not-for-profit names received no mentions at all.

# Australian Leaders

World Vision was mentioned 17 times amongst responses. The most prominent reasons stated for World Vision being well-run were:

- Being a strong and trusted brand with strong leadership
- Investing in their capacity
- Communicating their mission to stakeholders clearly
- Committing to good governance and financial rigour



Coming in equal second place, The Australian Red Cross (mentioned 12 times), namely because they:

- Are donor and client centred in all aspects of their engagement
- Are clear about what they do and why they do it
- Have a strong brand that people trust

Also, coming in equal second with 12 mentions, The Smith Family, because they:

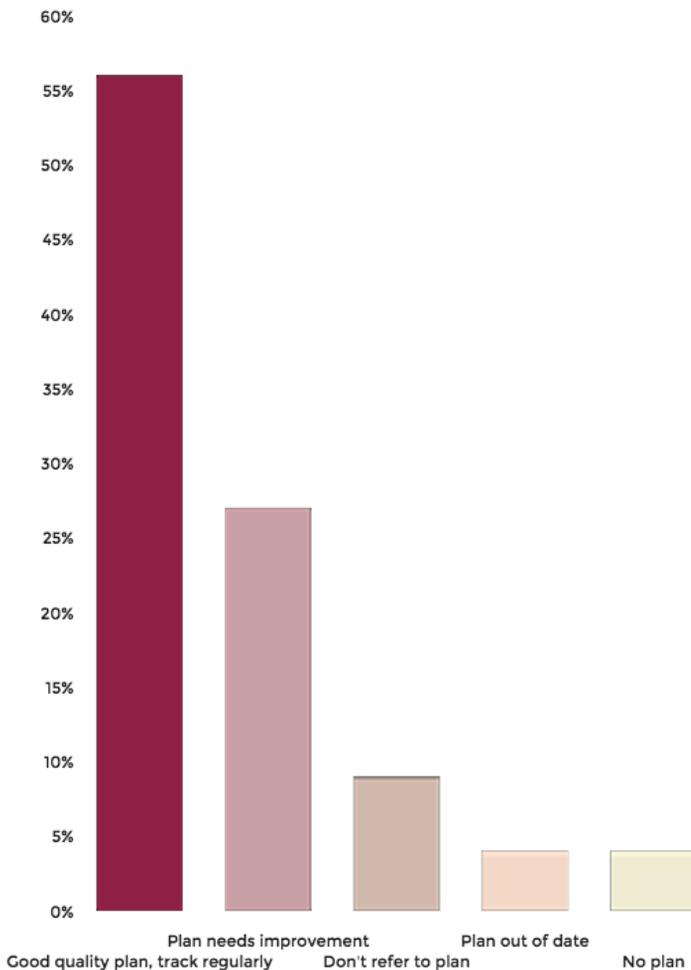
- Have very strong staff
- Have a clear message to stakeholders and consistently deliver
- Constantly move with the needs of the community, and are not afraid to do so



Honourable mentions go out to **The Fred Hollows Foundation** and **Cancer Council Australia**, gaining 8 mentions and 7 mentions respectively. The top qualities recognised in The Fred Hollows Foundations included their clear vision & purpose, an easily understood call to action, and their investment in growth. The Cancer Council was praised for its effective use of research, connecting well with stakeholders and being mission-centric.



# Operations



We asked respondents about strategic planning in their organisation. Specifically, we asked whether their organisation had a strategic plan or not, and how they make use of it.

Whilst encouraging to see the majority have a good strategic plan and regularly track execution of it, it is somewhat concerning to see that almost one in two not-for-profit organisations across the survey base are not doing this.

The size of the organisation appears to contribute to this as only **38%** of organisations with a revenue of less than \$1M said they had a good plan and regularly track it. However, all organisations should have a plan and track it as good business practice.

The 9% that have a plan but don't refer to it is a common story we hear – people feel all the hard work is done in completing the plan, so it is then forgotten about. Please don't let your organisation fall into this trap.

"The NFP sector needs to lead with the future in mind. Too many strategies and systems perpetuate traditional and separated ways of operating which is no longer as relevant as when these strategies and systems were first designed. NFPs need to serve their constituents and look beyond the cause and tradition to find collaborative and multi-cross disciplinary approaches that incorporate big data and new perspectives to achieve mission in agile and innovative ways"

- Survey Respondent

# People

We asked respondents about staffing issues in their organisation. Given we now know having great leadership and great staff are fundamental to ensuring you have a good chance of running your business well, then the focus on people becomes increasingly important. So, what can be done in relation to this? As the results showed, there are many issues involved with people. We don't profess to have the answers in this report but suffice it to say that you probably cannot spend enough time on focusing on your people issues. Whether that is finding the right people, retaining the right people, getting the right people in the right roles or providing continued growth and development opportunities for your staff.

47%	Providing career development
43%	Hiring good staff
39%	Retaining good staff
28%	Motivating & engaging staff
15%	Other
3%	Too many staff

We asked respondents about their key staff-related issues. There was no one standout 'people issue' with all categories we included in the survey receiving high levels of responses. No surprise that the main comment in the 'other' option was around pay and being able to compete with other organisations on levels of pay.

Our friends at People for Purpose advocate several ways to attract and retain new staff. They include:

1. Making sure the 'personal why' of staff matches the organisation's purpose;
2. That the more successful hires tend to be those who can be flexible and creative in how they do their jobs; and
3. That organisations that don't follow a process in how they hire tend to hire less well than those that do.



# Impact frameworks & measurement

We asked respondents to tell us about the kinds of frameworks they use to assess their impact. 78% told us they use their own in-house framework to assess their impact. We would therefore assume 8 out of 10 respondents feel there is nothing available in the market that they can use “off the shelf” with their programs. This is a worrying statistic and therefore likely to result in duplication across the sector.

We acknowledge this area is not mature yet and still developing but we would encourage those that have developed in-house tools to proactively share them where possible. If you as an organisation are looking to create your own, spend a few hours contacting your network to see if someone would kindly share their framework (we are advocates of ‘paying it forward’, we hope you are too). It also highlights the need for the sector to develop better tools to use to assess impact.



When it comes to the frequency of assessing impact, **45%** of respondents told us that they regularly assess the impact of all key programs and implement learnings.

This is encouraging that a high proportion assess and implement learnings.

Impact measurement processes can provide fantastic feedback on what clients value in programs offered by organisations and give the not-for-profit a great chance to redesign programs to increase their effectiveness and deliver what really helps and makes a difference for the client.

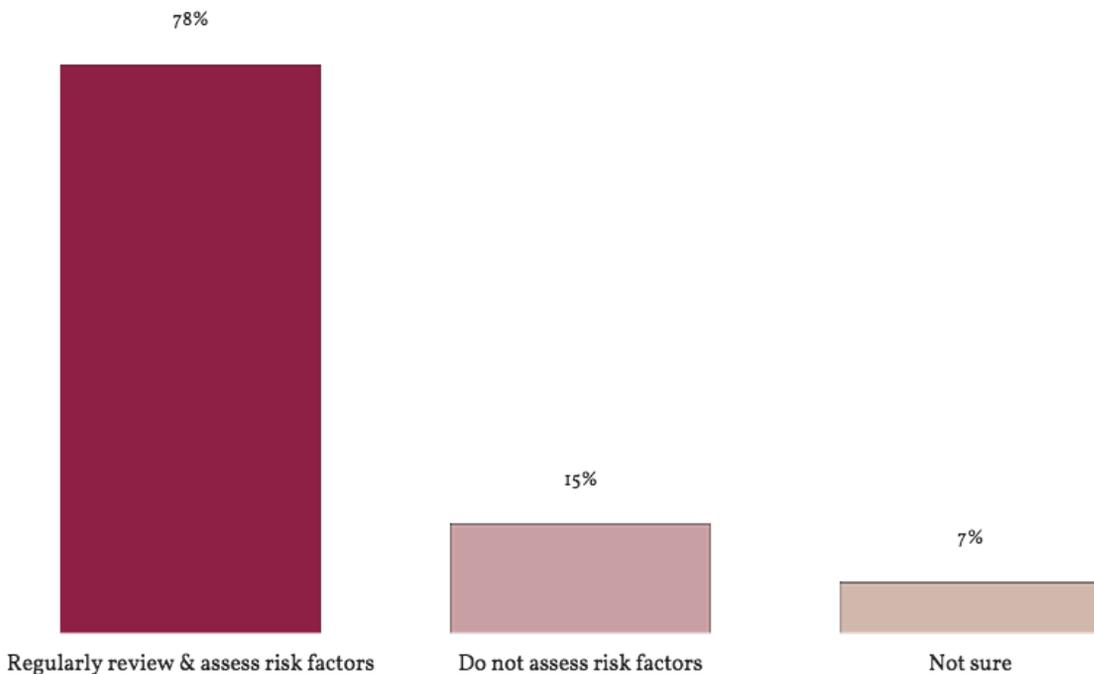
# Risk Management

How well do organisations manage the risks they face? The survey indicated that 78% of organisations regularly review and assess how well key risks faced by the organisation are managed. Only 15% of respondents said they do not assess the management of their key risks; 7% were unsure what their organisation did around managing its risks.

91% of organisations with a revenue of more than \$20M said they regularly review and assess key risk factors, compared with just 56% of organisations with a revenue of less than \$1M saying that they review their key risk factors.

A useful exercise within an organisation might be to ask each member of the leadership team or Board to independently name the top 5 or 10 risks their organisation faces, as well as how those risks are mitigated. We are always surprised by the diversity of risks noted and participants are usually surprised that they aren't mitigating their risks as well as they thought they were.

There was also a significant difference between the responses of CEOs and Direct Reports, with that of Other Employees. CEOs and Direct Reports appear to believe that they regularly assess and review how well they manage the key risks their organisations face, with 88% of CEOs reporting that they do regularly review and assess, and 83% of Direct Reports said that they regularly review and assess. Just 58% of Other Employees said that their organisation regularly reviews and assesses how well they manage their key risks. This difference may suggest the need for CEOs and Direct Reports to more effectively engage other employees in risk management processes.



# One Change

We asked respondents to name one thing they would like to see change, for NFPs to be well-run. Overall, there were 38 unique ideas for change, the most popular responses were to *Be More Business-Like*; *Engage a Relevant Strong Board*, and *Better Management*.

Only one respondent mentioned “take more risks”, only one talked about investing more in volunteers, and there was only one mention of making better use of technology. We think all these areas deserve more air time as all three could make significant improvements as to how not-for-profit organisations operate.

## CEOs

Three main issues were raised by CEOs. CEOs most talked about focusing more on purpose, becoming more ‘business-like’ and merging with other NFPs to avoid duplication of services and become more efficient regarding back-end processes.

*“There are too many NFPs doing similar things and they should at the very least look at merging the back end services, finance etc. to get greater economy of scale.”*

*“We must have leaders with business knowledge not just industry knowledge”*

*“Remove the label Not-for-Profit and be held accountable as a business.”*

## Direct Reports

Direct Reports also talked most about becoming more ‘business-like’, investing in staff, and the importance of having a committed and relevant strong board.

*“There is too much focus on overheads incurred by not-for-profits. To be effective, they must operate in the same way as for-profit businesses, which includes strong governance, strategic thinking and efficient administration.”*

*“Have the right people in place at the top - Board and CEO. With a passionate, driven Board that want to assist in moving the organisation forward ... a complacent Board is the downfall of an organisation.”*

## Others

Other employees said Better Management was the single most important thing NFPs could change to become well-run.

*“Without a strong leader, the NFP will swim around in stagnant waters, not able to successfully achieve its mission.”*

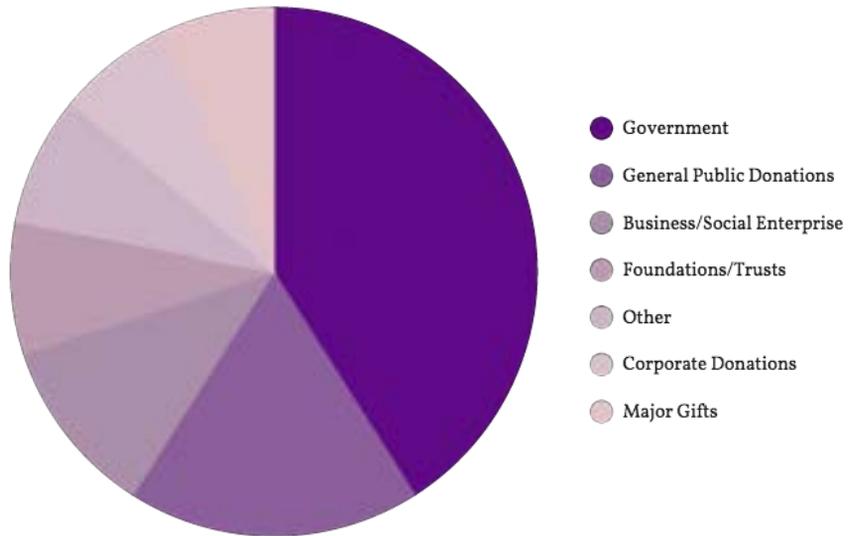
Next up, issues around employing appropriate staff:

*“Employ people with appropriate skills, not just promote individuals who have been there the longest.”*

# Revenue Sources

The survey asked respondents where their organisation's main source of funding comes from. Government Funding was the number one source of income for 41% of respondents, followed at a distance by General Public Donations, with 18%.

With government funding in most sectors reducing, it means that further pressure will be put on the other revenue streams as organisations seek to replace lost government funding from other sources. Many of these areas are already crowded spaces which will mean some organisations may not be successful in replacing lost income.





**“If we truly want charities to grow, be more effective and have greater impact, we need to encourage them to invest in growth and in running professional organisations”**

**- Donor Respondent**

**“Impact is the result of a complex interaction of many factors - good people, good purposes, good ideas are vital. NFPs are very different from private bodies, the motives and measurements of success are quite different.”**

**-Employee Respondent**

# Methodology & About Us

Thank you to everyone who completed the survey. We had a great range of organisations respond to the survey covering all sorts of different sizes of organisations, from all over Australia, from all parts of the sector and from various levels of people within organisations. No matter how we cut the analysis, the views were remarkably consistent across the different ways we segmented the results.

The purpose of this survey is to start conversations, discussions, comments, and thoughts – it is not to definitively define what is a ‘well-run’ not-for-profit as one size does not fit all. We hope some of the responses and quotes throughout reflect that.

## Who?

253 respondents  
 74 CEOs (29%)  
 65 Direct Reports to CEO (26%)  
 64 Other Employees (25%)  
 50 Major gift donors (20%)

## Organisation Size

11-50 employees	32%
More than 100 employees	29%
Less than 5 employees	17%
5-10 employees	13%
51-100 employees	9%

## Revenue

Between \$1M & \$5M	25%
Less than \$1M	25%
More than \$20.01M	20%
Between \$5.01M-\$10M	14%
Between \$10.01M-\$20M	11%
Unsure of revenue	3%
Do not wish to disclose	2%

When reflecting upon this report, please start asking the more difficult questions of how well is your organisation run, as well as how can we build a stronger, more efficient and better-run sector that delivers even greater impact for the limited resources it has.

Food for thought we hope. If you would like to discuss this report in more detail or how these issues affect your organisation, we would love you to contact the team at Good Foundations: [info@goodfoundations.com.au](mailto:info@goodfoundations.com.au), [www.goodfoundations.com.au](http://www.goodfoundations.com.au) or 0404 851577.