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Overview: Why Care About This Study?

“Growth is the only evidence of life,” said priest, poet, and theologian John Henry Newman. We’ve all witnessed, experienced, and measured growth throughout our lives – whether by marks on a door frame; accumulation of dollars in a bank account; or the grass, trees, and flowers in our yard. But how do we define growth when it comes to nonprofit organizations? Do we define it by an increase in donation dollars? By more services and programs being offered? More staff being hired? Well, in a word, yes.

Growth can mean different things to different organizations, and managing growth in a responsible way is essential – regardless of the shape, size, or flavor of that growth. Too little growth can cause an organization to stagnate; too much can overwhelm an organization and cause detrimental effects, such as delays in delivering on the mission.

In this study, we set out to answer a series of questions related to growth in the nonprofit sector, including:

• How do nonprofits define growth?
• How and what types of growth are nonprofits planning for in the next few years?
• How much does growth contribute to compliance and complexity challenges?
• How does Millennials’ view of growth differ from other generations?

What we discovered is that growth is important to most nonprofit organizations, and the search for additional revenue dollars (whether from donations, grants, services, or other sources) is constant. We also discovered growth changes the culture of an organization – sometimes this is a good thing, and sometimes, not so much.

We asked questions of more than 300 nonprofit finance professionals, representing nearly every vertical – such as social services, education, and health care. In some instances, we break down the data by experience level and generation to better understand how perceptions of more seasoned finance professionals compare to their less tenured colleagues. The surveys were conducted between May 9 and May 25, 2017.

Here is what we learned about nonprofit growth.
Key Findings

• **Growth is broadly defined, but very important for nonprofit organizations.** More than four-in-five survey respondents say growth is (at least) very important, and nearly half say it is extremely important. Yet, growth can mean different things to different people, with some defining it by an increase in services and others by an increase in funding.

• **The search for revenue in order to grow is constant.** More than half of the survey respondents state that during the remainder of this year (2017), they will apply for new grants, look for new ways to generate revenue, and increase fundraising efforts. Seeking new opportunities for grant funding is the top strategy for growth, with more than half saying they are very likely to do this as they grow strategically.

• **Financial professionals worry about the impact of growth on budget planning and training.** Around two-thirds or more say budget planning and training of new staff are at least moderate, if not major, challenges of an organization's growth.

• **Risk management becomes more challenging as organizations grow.** Sixty-two percent say as their organization grows, their ability to manage risk becomes somewhat or much harder. This is especially true among organizations with at least 500 employees (75 percent) or with at least 20 finance employees (77 percent). And, while virtually all express some level of confidence in the ability to manage risk, just 27 percent are very confident.

• **Increased fraud risks are a concern to one-in-three.** Though most do not think their organization's growth opens them up to greater potential for fraud or accusations of fraud, 33 percent do think that. Among organizations that bring in at least $10 million in revenue, 42 percent say the same, as do 48 percent of those in organizations with at least 500 employees.

• **Growth changes culture and relationships.** While many think relationships with major funders and the organization's board improved after growth, they are far more mixed when assessing impact on morale, ethics, and transparency within the organization. Younger employees are much more likely to equate growth with a positive increase in morale.
Section 1: Dynamics and Challenges of Growth

When you hear someone say his or her nonprofit is growing, what does that mean to you? Growth can mean a lot of different things to organizations, such as expanding services, hiring more staff, serving a greater population, adding additional revenue sources, and bringing in additional grant or donor funding. Based on what we see in the survey, growth can be proactive and reactive in equal measure. Fifty-one percent of those surveyed say their organizations are growing, both in response to additional needs of the communities they serve and proactively increasing capabilities as an inherent part of their mission.

Here's just a snapshot of what we hear growth means to nonprofit finance professionals:

Figure 1: What does it mean to you when you hear someone say that their nonprofit is growing?
Importance of Growth

No matter how an organization defines growth, it’s apparent that growth is important to nonprofits. Figure 2 showcases just how important it is for a nonprofit to grow. Ninety-eight percent of those surveyed say growth is at least somewhat important for their organization, with nearly half saying it is extremely important. Growth isn't just something nonprofits are thinking about; growth is an expected near-term reality for most organizations. Eighty percent of those surveyed expect to grow at least somewhat in the next 12 to 18 months (Figure 3).

Figure 2: How important is it for your organization to grow?

Figure 3: How do you think your organization may or may not grow over the next 12 to 18 months?
Growth Challenges

Nonprofit growth isn't without its own unique set of challenges. And finding the funding for growth also presents its own unique challenges, with the uncertainty of government grants, fatigued donors, and limited staff to focus on new revenue strategies. Figure 4 is a snapshot of what nonprofit finance professionals say is the biggest growth challenge they face. Once that new funding or revenue source is established, it can be difficult to plan accordingly for sustainability. Figure 5 highlights just how much of a challenge an organization's growth can pose.

- Generating the revenue/funding to do so. We are a small operation, so finding the right personnel to focus on new areas and growth, while at the same time doing their main job, can be a challenge.
- Being able to maintain growth year-over-year to support any increase in staff/infrastructure.
- Adding new strategies has created new kinds of operational, oversight, and training needs that we did not anticipate in each case; this puts strain on management to manage well.
- I'm flying an airplane while building it! We need to increase staff to increase revenue, but since we can't do that, I am burning the candle at both ends.
- Growing too fast and not being able to sustain the expense while the revenue is ramping up.

Figure 4: What is the biggest challenge that comes with an organization like yours growing?

<table>
<thead>
<tr>
<th>Challenge</th>
<th>No challenge</th>
<th>Minor challenge</th>
<th>Moderate challenge</th>
<th>Major challenge</th>
</tr>
</thead>
<tbody>
<tr>
<td>Budget planning</td>
<td>23%</td>
<td>47%</td>
<td>23%</td>
<td>7%</td>
</tr>
<tr>
<td>Training new staff</td>
<td>20%</td>
<td>45%</td>
<td>26%</td>
<td>7%</td>
</tr>
<tr>
<td>Ensuring compliance across all new staff</td>
<td>19%</td>
<td>43%</td>
<td>28%</td>
<td>7%</td>
</tr>
<tr>
<td>Ensuring we grow sustainably</td>
<td>18%</td>
<td>40%</td>
<td>27%</td>
<td>14%</td>
</tr>
<tr>
<td>Ensuring the organization's culture stays consistent</td>
<td>13%</td>
<td>43%</td>
<td>28%</td>
<td>14%</td>
</tr>
</tbody>
</table>

Figure 5: How much of a challenge does an organization's growth pose on the following?
Section 2: The Role of Funding

Based on our *2016 Nonprofit Finance Study: Compliance, People, and Process Complexities*, we know managing the complexity of revenue sources is one of the biggest challenges facing nonprofit finance professionals. Figure 6 showcases the average breakdown of funding sources for a nonprofit organization. Similar to what we saw in last year’s report, most organizations have a wide variety of revenue sources, but the majority of revenue is coming from government grants and services. Interestingly, we see an increase in the reliance on government grants in this year’s responses. Organizations that rely on grant funding on average receive revenue from eight unique government grants. Social service organizations are especially dependent on government grants, averaging 45 percent of their revenue.

![Figure 6](https://example.com/figure6.png)

*Figure 6: To the best of your knowledge, approximately what percent of your revenue comes from the following sources?*
**Growth Strategies: Focus on Grants**

When asked what strategic approach to growth their organization planned to pursue, the majority (84 percent) say they plan to seek new opportunities for grant funding (Figure 7). This was the top growth strategy for organizations of all sizes that plan to grow in the next 12 to 18 months. Additional top growth strategies include expanding fundraising efforts, seeking creative ways to earn revenue, and building partnerships. Interestingly, organizations that bring in more than $10 million in annual revenue are more likely to use revenue-earning services as part of a growth strategy.

**Figure 7: When attempting to grow strategically, how likely is your organization to undertake the following activities?**

<table>
<thead>
<tr>
<th>Activity</th>
<th>Very Likely</th>
<th>Somewhat Likely</th>
<th>Not Too Likely</th>
<th>Not Likely at All</th>
</tr>
</thead>
<tbody>
<tr>
<td>Seek new opportunities for grant funding</td>
<td>51%</td>
<td>33%</td>
<td>9%</td>
<td>5%</td>
</tr>
<tr>
<td>Expand fundraising efforts</td>
<td>43%</td>
<td>33%</td>
<td>10%</td>
<td>11%</td>
</tr>
<tr>
<td>Seek creative ways of earning revenue</td>
<td>33%</td>
<td>47%</td>
<td>12%</td>
<td>6%</td>
</tr>
<tr>
<td>Build partnerships with corporate sponsors</td>
<td>33%</td>
<td>34%</td>
<td>16%</td>
<td>14%</td>
</tr>
<tr>
<td>Build partnerships with other nonprofit organizations</td>
<td>31%</td>
<td>41%</td>
<td>17%</td>
<td>7%</td>
</tr>
<tr>
<td>Provide new services that bring in revenue</td>
<td>24%</td>
<td>45%</td>
<td>18%</td>
<td>10%</td>
</tr>
<tr>
<td>Provide new services that serve our mission without charging fees</td>
<td>14%</td>
<td>34%</td>
<td>30%</td>
<td>16%</td>
</tr>
<tr>
<td>Shift direction to focus on a different aspect of your organization’s mission</td>
<td>7%</td>
<td>20%</td>
<td>42%</td>
<td>28%</td>
</tr>
<tr>
<td>Seek to merge with or acquire other organizations</td>
<td>5%</td>
<td>25%</td>
<td>57%</td>
<td>Not likely at all</td>
</tr>
</tbody>
</table>
As stated earlier in the report, all types of nonprofit growth come with their own set of challenges. Figure 8 gives us a snapshot of challenges specific to organizations that are primarily government grant funded.

Even with the challenges and uncertainty associated with government grant funding, the majority of organizations feel some level of confidence that they will have the grant funding they need going into the next fiscal year (Figure 9). However, only 59 percent of those surveyed from an organization with an annual budget of less than $10 million feel confident they would have the grant funding they need (Figure 10). In contrast, 73 percent of those surveyed from an organization with an annual budget of $10 million+ are confident about grant funding.

**Figure 8: What is the biggest challenge that comes with an organization like yours growing? (Answers related to grant funding)**
Figure 9: How confident are you that you will have the grant funding you need going into FY 2018?

Figure 10: How confident are you that you will have the grant funding you need going into FY 2018? (By organization annual revenue)
Section 3: Growth and Risk Management

Evaluating and managing risk are pivotal functions for nonprofit finance professionals at organizations looking to grow. Nonprofit managers at growing organizations look to build capacity for a number of risk management activities, such as creating contingency plans for future funding uncertainty, maintaining compliance with funding requirements, actively assessing internal controls, and training employees. Sixty-two percent of nonprofit finance professionals believe growth makes risk management harder (Figure 11). Professionals at larger organizations (those with at least 500 employees), are much more likely to say growth will make their ability to manage risk harder, even those with larger finance departments (Figure 12 and Figure 13).

Figure 11: If your organization grows, how will that affect your ability to manage risk?
Figure 12: If your organization grows, how will that affect your ability to manage risk? (By employee size)

- Easier: 18% (<50 Employees), 7% (50-500), 8% (500+)
- Wouldn't make a difference: 22% (<50 Employees), 15% (50-500), 13% (500+)
- Harder: 54% (<50 Employees), 65% (50-500), 75% (500+)
- Don't know: 5% (<50 Employees), 5% (50-500), 13% (500+)

Figure 13: If your organization grows, how will that affect your ability to manage risk? (By finance department size)

- Easier: 15% (6 or fewer employees), 2% (7 to 20), 6% (20+)
- Wouldn't make a difference: 20% (6 or fewer employees), 14% (7 to 20), 13% (20+)
- Harder: 59% (6 or fewer employees), 64% (7 to 20), 77% (20+)
- Don't know: 6% (6 or fewer employees), 6% (7 to 20), 3% (20+)
Here’s a snapshot of the biggest risk management challenges nonprofit finance professionals associate with growth:

- We struggle with quality control and project consistency as we add more and more staff. This carries risks for relationships with clients and funders and in some cases compliance with funder requirements.
- Untrained staff in grants management and compliance.
- The lack of understanding of risk management by the Board of Directors.
- Controls not in place as we grow, resources not available in the right places.
- The need to reduce dependence on grants and find more sources of earned revenue.
- Shifting government priorities means we have to do a lot of contingency planning.

Since a large portion of our revenue comes from state and federal funding, the biggest challenge with growth is through contract compliance. It becomes extremely difficult to administer contracts for more than 40 different programs.

It is expected there will be some level of risk associated with any type of growth. Figure 15 highlights how confident nonprofit finance professionals are in their ability to manage these risks as their organization grows. The majority have some level of confidence in their organization’s ability to manage risks, but just 27 percent feel very confident.

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**Figure 14: What is the biggest challenge related to risk management that comes with an organization like yours growing?**

**Figure 15: How confident are you in your organization’s ability to manage risk as it grows?**
Growth and Compliance

We know from previous studies that nonprofit organizations have seen an increase in overall cost and time spent on compliance in the last two to three years. As an organization grows, especially through grant funding, there is an expectation that the burden of compliance will grow, as well. Based on our findings, the majority of nonprofit finance professionals are confident in their organization's ability to maintain compliance with regulations as their organization grows, with 49 percent feeling very confident (Figure 16). However, there are many regulatory challenges associated with compliance noted by respondents in Figure 17.

![Figure 16: How confident are you in your organization’s ability to comply with regulations as it grows?](image1)

- Very confident: 49%
- Somewhat confident: 45%
- Not too confident: 5%
- Not confident at all: 1%
- Don't know: 1%

![Figure 17: What is the biggest new regulatory challenge that comes with an organization like yours growing?](image2)

- Labor laws regarding overtime, exempt status, etc. that make it difficult to budget personnel costs, the largest part of our budget.
- In looking at applying for federal grant funds, our audit would change, and tracking and reporting functions would have to tighten up.
- Since our merger will include three states, our challenge will be to understand each state law and how that might impact our employees.
- The biggest challenge is keeping up with the regulatory changes as they come, because they come so quickly and without guidance.
- As systems change, it requires capital to make those infrastructure changes. We saw that with the ACA, and will likely see that with the AHCA ... we don’t have a lot of room to retain profits and cash for these changes.
- Having trained staff that is able to keep up with changing regulations.
- Our funding is from federal/state departments, compliance with regulations is extremely important in continuing to receive funding in the future. Everyone in the organization has to be diligent in what they do/document.
Growth and Fraud Risk

Fraud continues to be an ongoing concern for nonprofit organizations. About one nonprofit finance professional in three says growth opens an organization to greater potential for fraud or accusations of fraud (Figure 18). Larger organizations, those with larger revenue and more employees, feel the stronger threat of fraud associated with growth (Figure 19 and Figure 20).

![Figure 18: Does growth of an organization like yours open your organization up to greater potential for fraud or accusations of fraud?](image)

![Figure 19: Does growth of an organization like yours open your organization up to greater potential for fraud or accusations of fraud? (By revenue size)](image)

![Figure 20: Does growth of an organization like yours open your organization up to greater potential for fraud or accusations of fraud? (By employee size)](image)
Section 4: Growth, Relationships, and Office Culture

We’ve touched on what growth can look like for an organization and the risks/challenges associated with that growth, but what effect does growth have on an organization’s culture and relationships? As an organization grows in size – whether it be the size of the budget, staff, or services provided – the responsibility falls on the employees, funders, and the board to support that growth.

During times of growth, relationships with major funders and the board appear to improve; however, there can be mixed impact on the morale of the organization (Figure 21). Millennial employees tend to have a more positive outlook on growth’s potential impact on an organization’s morale, while more seasoned employees anticipate mixed impact (Figure 22).

<table>
<thead>
<tr>
<th>Relationship</th>
<th>Impact for the better</th>
<th>Mixed Impact</th>
<th>Impact for the worse</th>
<th>No impact</th>
</tr>
</thead>
<tbody>
<tr>
<td>Relationships with major funders</td>
<td>44%</td>
<td>22%</td>
<td>0%</td>
<td>19%</td>
</tr>
<tr>
<td>Relationships with your organization’s board</td>
<td>38%</td>
<td>27%</td>
<td>4%</td>
<td>24%</td>
</tr>
<tr>
<td>The morale of the organization (see Figure 22 for breakout)</td>
<td>33%</td>
<td>45%</td>
<td>6%</td>
<td>10%</td>
</tr>
<tr>
<td>The ability to instill an organization-wide code of ethics</td>
<td>31%</td>
<td>34%</td>
<td>8%</td>
<td>20%</td>
</tr>
<tr>
<td>The ability of management to be transparent with the staff</td>
<td>28%</td>
<td>34%</td>
<td>14%</td>
<td>18%</td>
</tr>
</tbody>
</table>

Figure 21: As an organization like yours grows in size, how is each of the following usually affected?

<table>
<thead>
<tr>
<th>Age Group</th>
<th>Impact for the better</th>
<th>Mixed Impact</th>
<th>Impact for the worse</th>
<th>No impact</th>
</tr>
</thead>
<tbody>
<tr>
<td>Among all</td>
<td>33%</td>
<td>45%</td>
<td>6%</td>
<td>10%</td>
</tr>
<tr>
<td>Millennials</td>
<td>55%</td>
<td>26%</td>
<td>6%</td>
<td>3%</td>
</tr>
<tr>
<td>Gen Xers</td>
<td>32%</td>
<td>49%</td>
<td>6%</td>
<td>8%</td>
</tr>
<tr>
<td>Boomers</td>
<td>29%</td>
<td>46%</td>
<td>7%</td>
<td>13%</td>
</tr>
</tbody>
</table>

Figure 22: Impact of growth on morale of the organization (By employee age)
In 2015 Millennials surpassed all other generation groups to make up the largest percentage of the American workforce, according to Pew Research. We asked several questions specific to Millennial employees to better understand the future of nonprofit office culture. If the respondents were Millennials themselves, they were asked to rate themselves. (For example, “How well does this phrase describe you?”) If the respondents were not Millennials, they were asked to rate Millennials. (For example, “How well does this phrase describe people you work with under the age of 35?”)

People are drawn to work at nonprofits for many reasons. When it comes to Millennials, many nonprofit finance professionals believe they are attracted to the nonprofit sector because of their passion for the mission. However, we also saw many who believe Millennial employees use nonprofits as a stepping stone in their career, and don’t fully understand the work ethic required in the industry. Figure 23 gives a snapshot of the reasons why people think Millennials choose to work at nonprofits.

**Figure 23: What is the one main reason you think people under the age of 35 choose to work in the nonprofit industry?**

- I believe they join to have a positive impact in the world, to use their skills to do good, while building their careers.
- I think they just want to earn experience and then move to the private sector.
- I believe that people of my generation are seeing that careers in the nonprofit field can be both lucrative and give one a sense of fulfillment by being part of an organization that has a mission to help others.
- The majority of people under 35 think that nonprofits have a great purpose for the community; however, there is a different expectation when they have to commit to the mission and realize that they have to work hard to meet the goals.
- As a nonprofit, this may be the biggest issue that we are going through. People coming out of school and into our industry seem to have a negative attitude towards work and the level of both loyalty and work ethic they bring to the job.
- Don’t understand standard operating procedures and like to make up their own, that usually only make things more difficult. I find a true lack of ethics, it seems all they want are raises, but don’t want to follow instructions or work.
- I think they see a broader world perspective than my generation, and they feel the need to be part of change or to give back.
When asked to describe their Millennial colleagues, nonprofit finance professionals over 35 find their counterparts to be idealistic and passionate, but lack loyalty to the organization (Figure 24). In contrast, Millennials had a much higher regard for their generation, giving themselves high marks in caring about ethics and transparency, as well as a willingness to contribute to the growth of the organization. This gap in perception may shed some light onto why some nonprofit organizations are having retention issues. As seen in Figure 25, most nonprofit organizations have a challenge retaining Millennial employees, with 78 percent saying it’s a moderate or major challenge.
Maintaining Office Culture with Growth

Many nonprofit employees are attracted to the unique culture and shared values of a nonprofit office. Growth inevitably will bring some amount of change to an organization’s culture, sometimes for the better, other times it has adverse effects. Figure 26 provides a snapshot of ways nonprofits have seen a shift in office culture due to growth. Forty-one percent of nonprofit finance professionals say it’s difficult to maintain an organization’s culture as it grows (Figure 27). Perceptions of difficulty increased with the size of the organization. No matter the size of an organization, change is the only constant. Proactive planning and consistent communication are keys to maintaining an organization's culture through a growth period.

Figure 26: Describe a way in which your office culture has changed as a result of growth in the past.

- The need for more communication at all levels of the organization.
- More demands often come with growth and arrive before staff responsibilities and staff sizes are considered. The stress on staff increases, which adversely affects the office culture.
- Because of growth, departments have become more siloed. We have a lot of Millennials and are learning to incorporate new ideas into our culture.
- Merger resulted in employees with different values, work ethic, and expectations of employment.
- The culture needs to change and is one of the biggest hurdles that management faces in dealing with staff who have been in the organization for a long time and instituting change is extremely difficult.

Figure 27: How easy or difficult is it for an organization like yours to make sure its culture stays consistent across the organization as it grows?

- Very/somewhat easy: 38%
- Very/somewhat difficult: 41%
- Don't know: 7%
- Very/somewhat difficult: 6%

We have become much more transparent. We have put written policies and procedures in place where there were none before.
Section 5: Where Do We Go From Here?

Organizations will always be faced with the prospect of growth, and there will always be risks and rewards when it comes to growth. Managed growth can be a true boon to nonprofits, so they can do what they do best – deliver on their mission.

With challenges and opportunities in mind, how do you prepare your budget, staff, and organization for growth? We’ve put together some specific tips and suggestions to help you get the most out of the data in the study and prepare your organization for successful growth.

• **Plan ahead for growth.** One of the top challenges growing organizations face is around budget planning. If done correctly, an organization’s budget can serve as a roadmap for planned growth. Challenge your team to keep a rolling budget forecasting several years out. Be sure to include key activities that support your planned growth, including new personnel and other associated costs.

• **Diversify your growth strategy.** A large number of organizations rely on government grants as their main source of revenue and plan to identify more grant fund opportunities in the next 12 to 18 months. With the increased uncertainty and competition for federal grants, it is important for nonprofit organizations to diversify their revenue sources and look for new opportunities to fund growth. Look to expand fundraising efforts, create new service-based revenue, or acquire private grants through foundations and corporations, as these continue to grow year-over-year.

• **Evaluate strategies through a risk management framework.** Each growth strategy has different types of risk associated with it. It is important to evaluate each potential strategy through a risk management framework outlining things, such as additional staff needs, what might go wrong, contingency plans, dependencies, and any new laws or compliance considerations. In some scenarios it might make sense to bring in outside experts or board members with area expertise to identify potential risks.

• **Prepare your staff for growth.** If you don’t have the key personnel in place to support your organization’s growth it can all fall apart. Identify areas where you may need to add headcount or build out new skills for existing employees. Retaining key personnel and boosting office morale when going through growth can be major pain points for organizations. Make a point to include staff training and succession planning as a part of your growth plan. Grow your team for new future needs.

• **Strive for more transparency.** There are both internal and external communication needs to consider when planning to grow. You need to consider how you plan to introduce change and provide updates to both your staff and board. Create a plan around communicating major changes and milestones. Your organization may also have new additional reporting needs to provide transparency to grantors and stakeholders.

• **Leverage technology to help scale and manage growth.** When planning for growth, it is also important to consider what technology solutions you will need to support that growth. Start with identifying solutions that can scale with you over time as you diversify and add new revenue sources. This includes looking for solutions that provide integrations and complimentary tools you might grow into, such as more robust payroll/human resource functionality to fulfill new compliance requirements.
Survey Methodology

Commissioned by Abila, Finn Partners fielded online surveys to 301 nonprofit finance professionals. To be included in the study, respondents had to state in the survey they still worked for a nonprofit, and their primary role involved finance or accounting. Abila provided lists, and professionals were sent an email invitation to participate. Note that sometimes totals may not appear to add up to exactly 100 percent, due to rounding. The surveys were conducted between May 9 and May 25, 2017.

About Abila

Abila is the leading provider of software and services to nonprofit organizations and associations that help them improve decision making, execute with greater precision, increase engagement, and generate more revenue. Abila combines decades of industry insight with technology know-how to serve nearly 8,000 customers across North America. For more information, please visit abila.com. To subscribe to our blog, visit Forward Together at blog.abila.com.