NONPROFIT PULSE:
A LEADERSHIP SURVEY FROM MARKS PANETH

Marks Paneth serves many leading nonprofits. To gain new insights into the challenges and issues that nonprofit leaders face, we surveyed over 100 nonprofit chief executive officers, executive directors, chief financial officers and Board members during the fourth quarter of 2014.

The following are highlights of the findings.

What Nonprofit Leaders Perceive to Be Their Top Challenges

Raising funds and leadership capacity top the list of challenges for nonprofit leaders.

- Nearly three-quarters – 74% – of nonprofit leaders say "raising funds in a competitive environment with higher expectations for ROI" is a top challenge; in addition, 44% said "diminished government funding, despite greater compliance requirement" is a top challenge.
- A majority – 54% – cite a "leadership capacity deficit" as a top challenge.
- And – 51% – say "populating the board with people with the right fit" is a top challenge.

Nonprofits and Fraud: Are Nonprofit Leaders Overly Complacent About the Risk?

Nonprofit leaders do not see fraud as a major issue. Only 1% said "fraud by staff" is a top challenge. The lack of concern may be a result of leaders believing they have established practices to prevent fraud:

- 85% of leaders say their organizations have "appropriate separation of incompatible duties."
- 84% have codified a "clear code of ethics" and emphasized it within the organization.
- Nearly three-quarters (72%) employ background checks upon hiring – and periodically for other personnel.

Are these measures adequate to prevent fraud, or are they just the baseline? Like many for-profit companies fraud plagues nonprofits, and the effects can be devastating. For a nonprofit, they're not just financial; they extend to reputation, which is all-important for nonprofit institutions. A Washington Post analysis of federal filings shows that more than 1,000 nonprofits checked a box indicating they had discovered a "significant diversion" of assets between 2008 and 2012. And a recent white collar fraud study by Marquet International, a security firm, concluded that nonprofits and religious organizations accounted for one-sixth of major embezzlements, placing these organizations second only to financial services companies.[1]

Reasons for nonprofit leaders potentially not perceiving fraud prevention as a major challenge may include (a) not seeing it as a problem until it actually happens and (b) not taking the risk assessment steps that would reveal how potentially vulnerable the organization actually is. In fact, according to the Marks Paneth survey…

[1] Stephens, J. & Flaherty, M. P. (2013, October 26). Inside the hidden world of thefts, scams and phantom purchases at the nation's nonprofits. *The Washington Post*. Retrieved from http://www.washingtonpost.com/investigations/inside-the-hidden-world-of-thefts-scams-and-phantom-purchases-at-the-nations-nonprofits/2013/10/26/825a82ca-0c26-11e3-9941-6711ed662e71_story.html

- Only 20% of nonprofit leaders say they have a “facilitated fraud risk assessment process.”

When pressed, nonprofit leaders suggest that there are indeed significant issues when it comes to preventing and identifying instances of fraud. Many leaders – 43% – say the costs associated with facilitating a fraud risk assessment process is a top challenge to efforts to prevent and identify fraud. And nearly a third – 32% – note that background checks only go so far in prevention, as many fraudsters are first-time offenders.

Nonprofit executives who oversee finance and operations are more likely to express concerns about the possibility of collusion than other executives. Thirty-seven percent of financial officers say collusion represents a top challenge in preventing fraud, compared with only 5% of other executives.

A Quiet Trend: Nonprofit Mergers

Nonprofit leaders do not say the topic of merging with other nonprofits represents a day-to-day concern. However, other survey findings suggest that mergers will be a more significant subject of discussion going forward.

For one, more than a quarter of nonprofit leaders say their organizations have either merged or considered merging over the past three years.

- 13% say their organization merged during the past three years.
- 15% say their organization considered a merger but didn’t proceed over that period.

And nearly a third of nonprofit leaders expect notable merger activity in their sectors during the next five years.

- A quarter expect moderate merger activity in their sector in the coming five years; 6% expect significant merger activity.

Why did they merge? Nonprofit leaders whose organizations did merge over the last three years say the key motivators were “increasing the ability to serve their constituents” and “combating financial difficulties.” Interestingly, leaders do not list “expanding board expertise” and increasing “government pressure” as significant influences.

The majority of nonprofits that considered a merger but did not proceed say the key reason for not moving forward was that “mission and values were different.”

The survey asked the nonprofit leaders general questions about mergers. The majority say the biggest advantages to a merger would be the “shared finances” (58%), the combined “social/political capital” (57%) and the combined membership base (51%). The biggest potential drawbacks involve the unwieldiness of combining the two organizations: 29% said “staff size” was a drawback, and 31% said “board expansion.”

Overall, 45% of nonprofit leaders say they believe mergers in their sector will strengthen the missions and effectiveness of nonprofit organizations, while 21% say mergers will weaken them. More than a third – 34% – say they are not sure.

Nonprofit Leaders and Their Boards

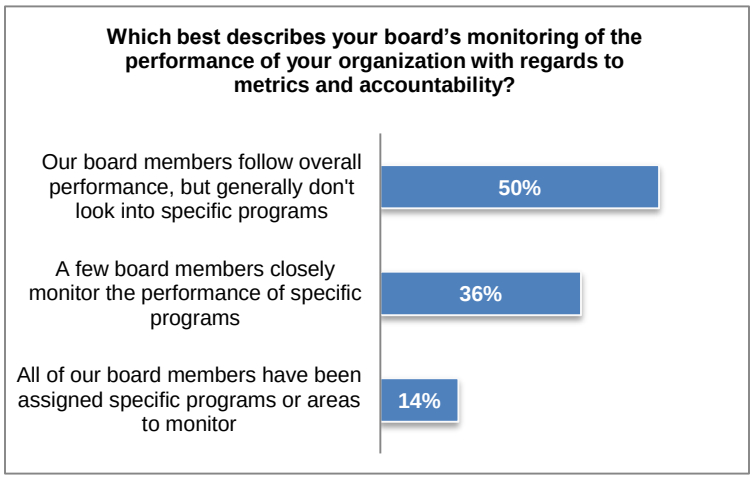
In the big-picture, nonprofit leaders are happy with and complimentary of their boards. But the leaders do report some challenges.

The majority of leaders – 61% – say their board is "fully engaged but doesn't micromanage." However, a quarter say their board is "not engaged enough."

Nearly three-quarters (73%) say their boards have "a passion for the mission" of the organization; most (57%) say the board members "closely monitor financial expenditures" and have "strong attendance records" at board meetings (54%).

On the other hand, smaller percentages of leaders say that the following describes their boards "very well"…

- 15% say the board "closely monitors dashboard performance compared to peer organizations."
- 28% say the board members are highly strategic in providing input and guidance.
- 29% say the board connects the organization to external sources.
- 42% say the board closely monitors organizational performance.
- 47% say board members lend their professional expertise to the organization
- 45% say the board closely monitors investments.[2]



When asked more about board monitoring of organizational performance, half (50%) of leaders say "board members follow overall performance but don't look into specific programs"; 36% say "a few board members closely monitor the performance of specific programs", and only 14% say "all board members have been assigned specific programs or areas to monitor".

The survey also explored the subject of specialized training and education for board members. The majority of nonprofit leaders said "board member availability" presented a significant obstacle to such training, and nearly half (48%) said cost was an obstacle.

Methodology

The *Nonprofit Pulse: A Leadership Study from Marks Paneth* represents the findings of a survey of nonprofit leaders in the United States. The 103 professionals participating in the research include Board Chairs, Presidents, Executive Directors, Chief Executive Officers, Chief Financial Officers, Treasurers, Chief Operating Officers, Development Directors, Vice Presidents and Board members and are with organizations with annual budgets between $10 million and $100 million. The research employed self-administered questionnaires completed online by respondents. The national list of professionals surveyed was compiled by Marks Paneth LLP, the research sponsor, and by Michaels Opinion Research. Interviews were completed during the period of November 12 to December 31, 2014.

[2] For some questions, percentages may not add to 100 because participants were allowed multiple responses.