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Not-for-profit Excellence Survey 2016

2nd edition of PwC's survey
of not-for-profit
organisations



pwc





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The not-for-profit organisations we surveyed are in good economic and financial health. Despite some concerns on the future employment market, they are confident about the future of their organisation in Switzerland.

1. Executive summary

This report summarises the findings of the second not-for-profit organisation (NPO) survey PwC carried out in summer 2016. Two years after the first edition, we revisited the questions and expanded the survey's reach beyond French-speaking Switzerland. Senior leaders from close to 150 NPOs across Switzerland responded to this survey. Over a third of our respondents have an annual operating budget of more than ten million francs.

Other highlights of this year's survey include:

Financial situation: Public individual fundraising, corporate giving and self-generated income are the three most common sources of income among the NPOs consulted. Government funding seems less common. NPOs that generate their own income (for instance via membership fees) usually source a larger share of their revenues from this stream and are less diversified. Around a third of the respondents manage to raise over 70% in unrestricted funds. The share of operating expenses seems higher than the 10% to 15% which donors are usually willing to fund, which reflects the reality most NPOs face on the ground.

Governance and leadership: NPO boards have a good understanding of their organisation's mission and strategy. The majority of the boards have a formally documented mandate, but only half of the surveyed NPOs have a conflict of interest policy in place. The most frequent board committees include the audit and finance and strategy committee, as well as the treasurer. Boards of smaller NPOs are more frequently involved in

fundraising efforts than their counterparts in larger organisations. A vast majority of the boards are representative of the NPO's key stakeholders, but only one in five reaches gender parity. Senior leadership teams are more frequently gender-balanced in smaller than in larger NPOs. The challenge will be to ensure this pipeline of talent translates into increasing representation at the top.

Reporting and audit: NPOs are generally satisfied with the ordinary audit as a means of demonstrating good governance. Only few of the NPOs surveyed use other standards, external certifications or labels to gain donor confidence. A majority of NPOs publish their financial information on the website, a practice that is more common among larger NPOs. The ordinary audit is the most frequent type of audit among respondents. The Swiss Code of Obligations is more frequent among smaller organisations, whereas larger entities have a strong preference for Swiss GAAP FER. We note that only two out of five respondents are registered for value-added tax (VAT). VAT may, however, be applicable, and a regular check is advisable to identify potential for

optimisation. A large majority have standardised internal control systems in place. Risks including cybersecurity threats are increasingly taken seriously by NPOs, but a third of the respondents consider cyber criminality not to be a concern to them.

Strategy, performance and impact:

The majority of respondents to the survey have their staff performance systems aligned with the organisation's strategy. The system allows them to reward achievement, but also to address poor performance. Close to half of the smaller NPOs consulted have no staff performance system in place yet. Almost all NPOs evaluate their programmes and projects on a regular basis. About half of the NPOs benchmark their organisations against a group of peers. There is scope to use the information more strategically. An increasing number of NPOs use data analytics to improve the effectiveness of their programmes.

The PwC professionals who contributed to this report are at your disposal should you wish to discuss any findings in further detail. Please refer to the contact details provided at the end of this report.



Senior leadership from 150 NPOs in Switzerland participated in this survey, which ensures relevance of the data gathered.

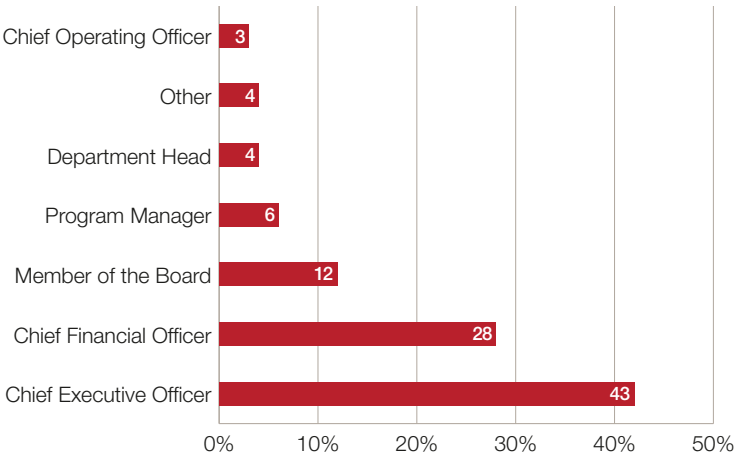
2. Demographic information

Our survey mainly targeted associations and foundations based in Switzerland. In comparison to international organisations, these organisations face different economic challenges when operating in Switzerland. Respondents to this survey are either part of the NPO’s senior leadership or a member of their governing board, which ensures the relevance of the results obtained.

The organisations surveyed operate in a variety of sectors, most frequently in health, the humanitarian field or education. Human rights, environment/sustainability and sports organisations are also well represented. Other fields of work include the social and family related sectors as well as arts and culture.

Two thirds of the respondents are well-established organisations that have been in existence for more than 20 years. About one third of the sample have over 100 employees.

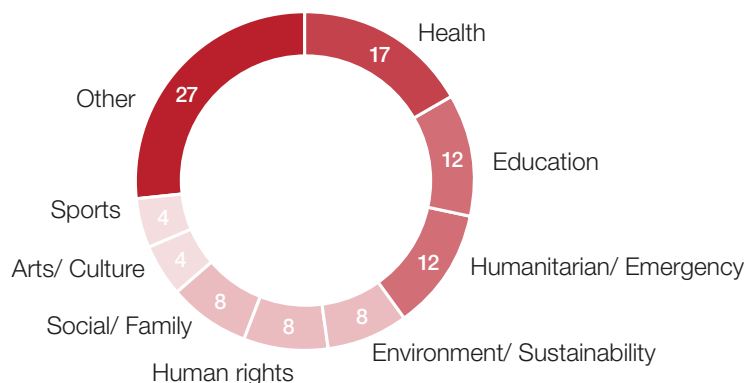
What is your role in your organisation?



Answers	%
Chief Operating Officer	3%
Other	4%
Department Head	4%
Program Manager	6%
Member of the Board	12%
Chief Financial Officer	28%
Chief Executive Officer	43%

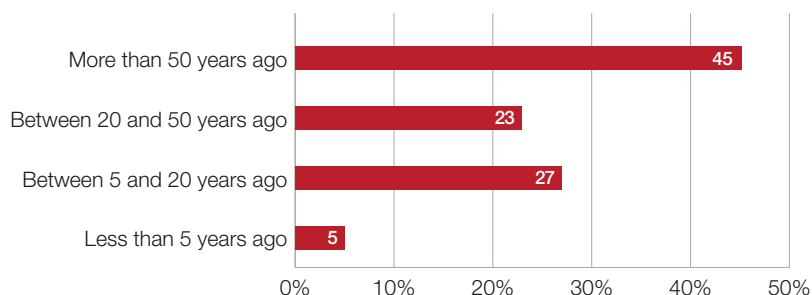
What is your field of work?

Answers	%
Health	17%
Education	12%
Humanitarian/ Emergency	12%
Environment/ Sustainability	8%
Human rights	8%
Social/ Family	8%
Arts/ Culture	4%
Sports	4%
Other	27%



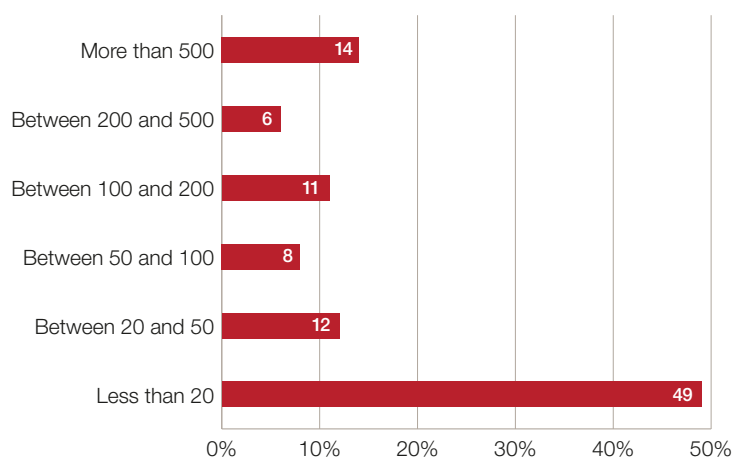
When was your organisation established?

Answers	%
More than 50 years ago	45%
Between 20 and 50 years ago	23%
Between 5 and 20 years ago	27%
Less than 5 years ago	5%



How many staff (full time equivalent) are employed in your organisation?

Answers	%
More than 500	14%
Between 200 and 500	6%
Between 100 and 200	11%
Between 50 and 100	8%
Between 20 and 50	12%
Less than 20	49%



A large number of NPOs manage to raise a substantial share of unrestricted funds. In addition, operating expenses are rarely below the 10% to 15% donors are usually willing to fund.

3. Financial situation

Over a third of our respondents have an annual operating budget of more than ten million francs. The three most common revenue sources include public individual giving (donations and funds collected via public fundraising and campaigns), contributions from corporations, and income from membership and other revenue generating activities.

Government funding (bilateral and multilateral) is less frequent among the NPOs surveyed, and usually contributes no more than 20% of the

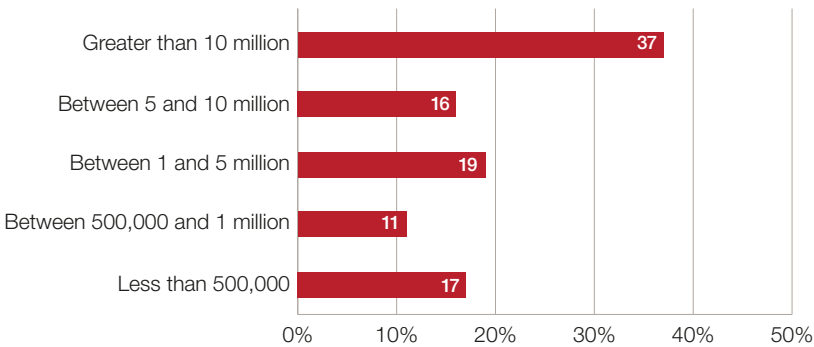
total revenue. Donations and corporate contributions rarely make up more than 40% of the NPO’s budget. Organisations that collect membership fees and generate their own revenues usually have a higher share of their budget coming from this source, and have accordingly less diversified revenue streams.

Among the NPOs who responded to the survey, we see sharp polarisation when it comes to funding flexibility. A third of the respondents said that over 70% of the funds they raise are

unrestricted. On the other end, an equal number said that less than 10% of the funding was unrestricted.

Over of half the respondents state that their operating expense is higher than 15% of their annual revenue. Two out of every five NPO surveyed have operating expense higher than 20% of their revenues. These percentages are higher than what donors are usually willing to pay, but reflect the realities on the ground.

What is your approximate annual operating budget (in CHF)?

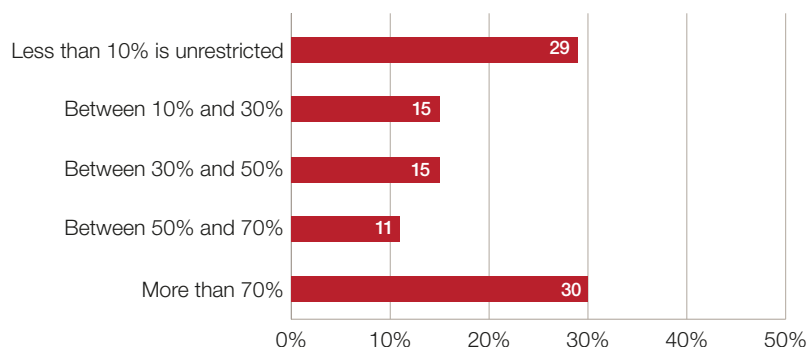


Answer	%
Greater than 10 million	37%
Between 5 and 10 million	16%
Between 1 and 5 million	19%
Between 500'000 and 1 million	11%
Less than 500'000	17%



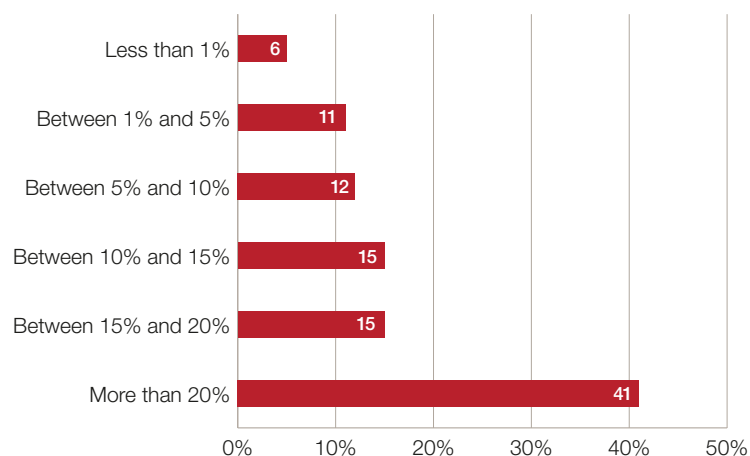
What percentage of the funds you raise are unrestricted?

Answer	%
Less than 10% is unrestricted	29%
Between 10% and 30%	15%
Between 30% and 50%	15%
Between 50% and 70%	11%
More than 70%	30%



What percentage of your revenues are spent on your operating expenses?

Answer	%
Less than 1%	6%
Between 1% and 5%	11%
Between 5% and 10%	12%
Between 10% and 15%	15%
Between 15% and 20%	15%
More than 20%	41%



NPOs are in good economic and financial health. Despite some concerns on the future employment market, NPOs are confident about the future of their organisation in this country.

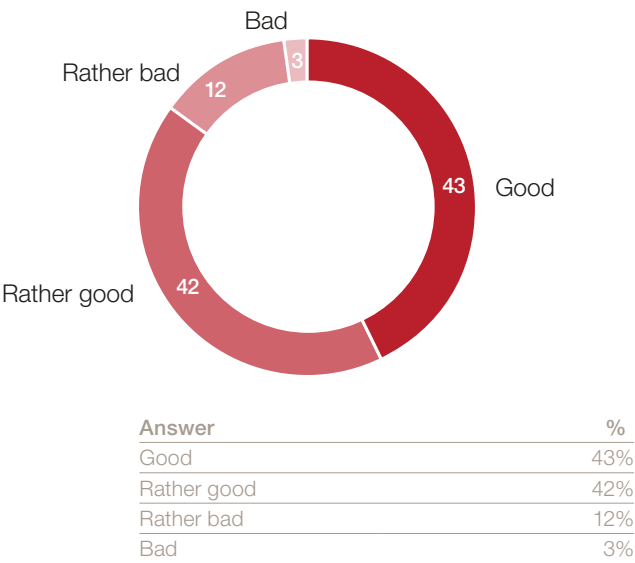
4. Political and economic environment

A majority of respondents consider the economic situation of their organisation to be good or rather good. Two thirds of the respondents have seen their budget increase over the past five years. For one in five, the budget increased by over 25%.

The strong Swiss franc and the removal of the floor on the franc to euro exchange rate had little or no impact on most of the organisations. Still, twelve percent felt a considerable impact. Twelve per cent of the respondents have experienced a decrease in their operating budget over the past five years.

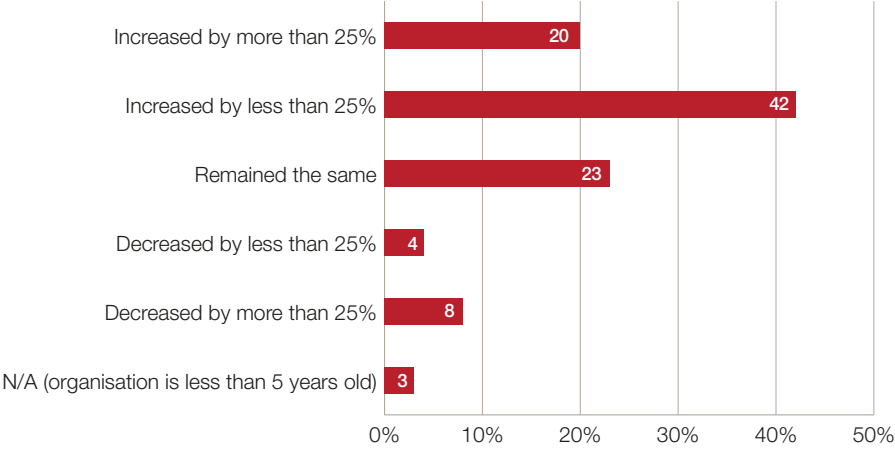
Actions taken as a response to the strong Swiss franc include reductions in programmes and projects, outsourcing activities and hedging to cover exchange rate risks. Only a minority reduced the number of employees.

What is the current economic situation/financial health of your NPO?

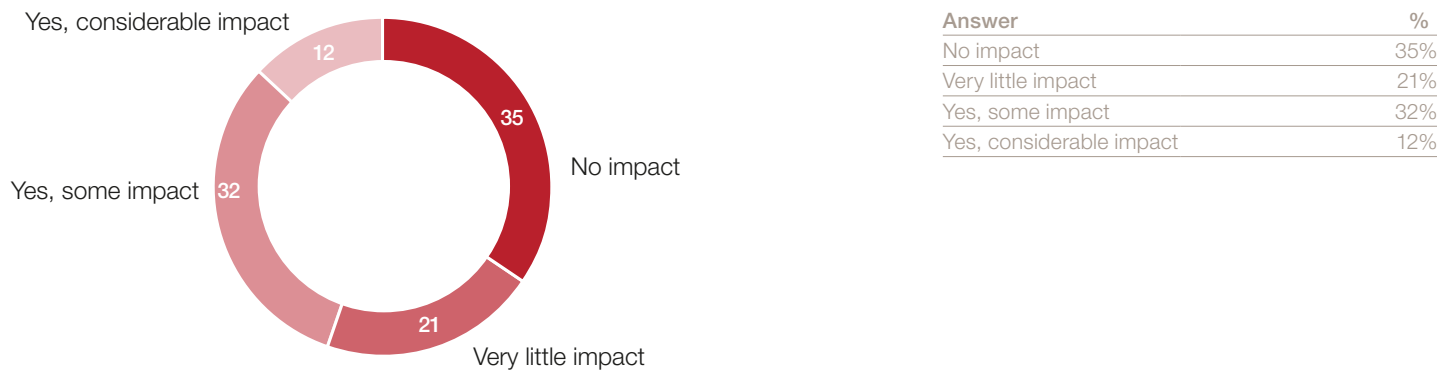


How has your operating budget changed over the past 5 years?

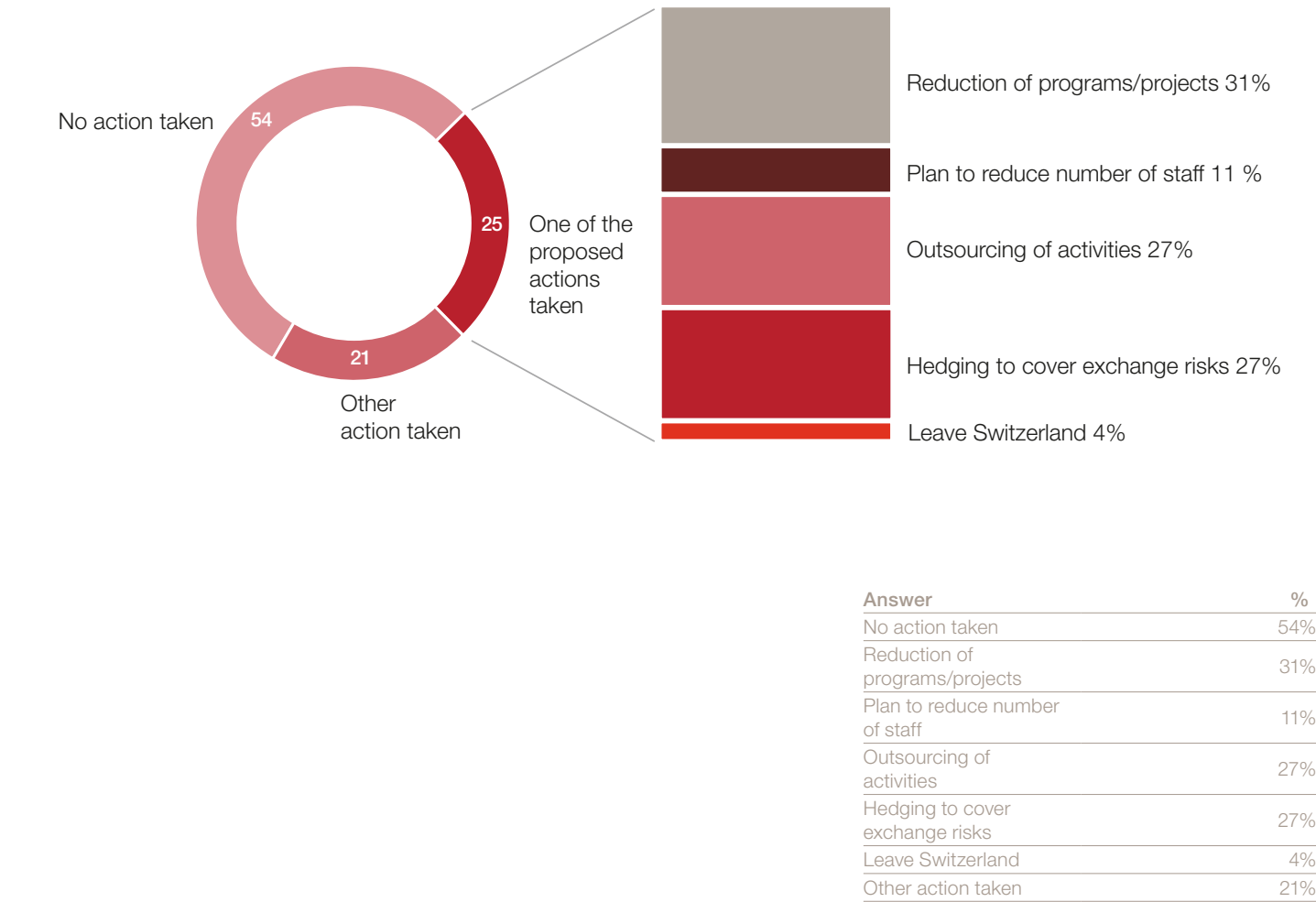
Answer	%
Increased by more than 25%	20%
Increased by less than 25%	42%
Remained the same	23%
Decreased by less than 25%	4%
Decreased by more than 25%	8%
N/A (organisation is less than 5 years old)	3%



Have the risks related to foreign currencies (strong Swiss franc, discontinuation of the CHF/Euro exchange rate floor) had an impact on the financial performance of your organisation?



What has been your response to the strong Swiss franc?

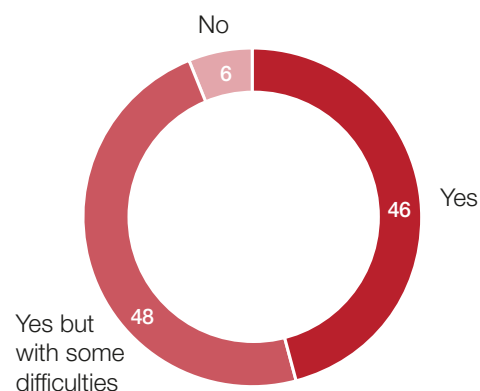


A majority of NPOs are able to find sufficient qualified staff on the Swiss and European employment market, but almost half of them indicated difficulties in the recruitment process. The picture is equally mixed on the outlook of the February 2014 popular vote on immigration. Over 40% believe the implementation of the mass immigration initiative will have or is likely to have an impact on their organisation.

Despite some concerns about the future of the employment market, over 95% of respondents remain very or reasonably confident about the future of their NPO in this country.

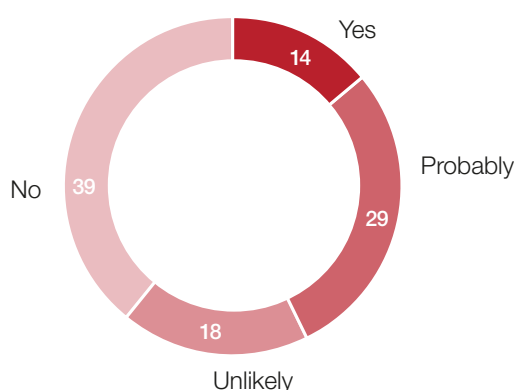
Do you find sufficient qualified staff on the Swiss and European labour market?

Answer	%
Yes	46
Yes but with some difficulties	48
No	6



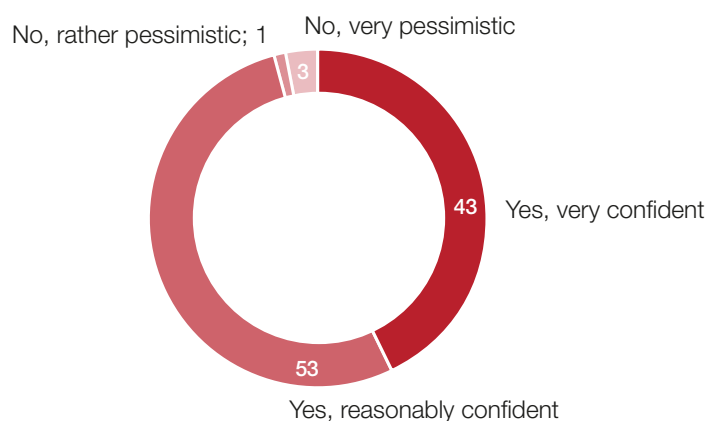
Do you expect the implementation of the Mass Immigration Initiative of 9 February 2014 to have an impact on your organisation?

Answer	%
Yes	14%
Probably	29%
Unlikely	18%
No	39%



Are you confident about the future of your organisation in Switzerland?

Answer	%
Yes, very confident	43%
Yes, reasonably confident	53%
No, rather pessimistic	1%
No, very pessimistic	3%



Senior leadership teams in smaller entities are more frequently gender balanced than in larger organisations.

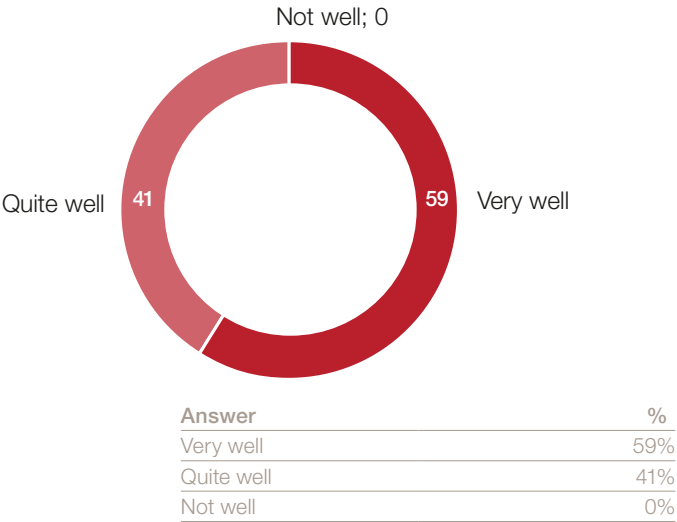
5. Governance and leadership

The boards of governance of the surveyed NPOs understand their organisation’s mission and strategy well. In the majority of cases, the board members’ mandate is documented by by-laws and a charter. However, only half of the boards have a conflict of interest policy in place. The percentage increases to two thirds among organisations with annual revenues above five million francs. Decisions are more frequently taken by vote (59%) than by consensus (41%).

The audit and finance, strategy and the treasurer are the three most frequent board committees, independent of the size of the NPOs surveyed. These committees are closely followed by the governance and internal audit committees. Other committees include the evaluation and ethics committee.

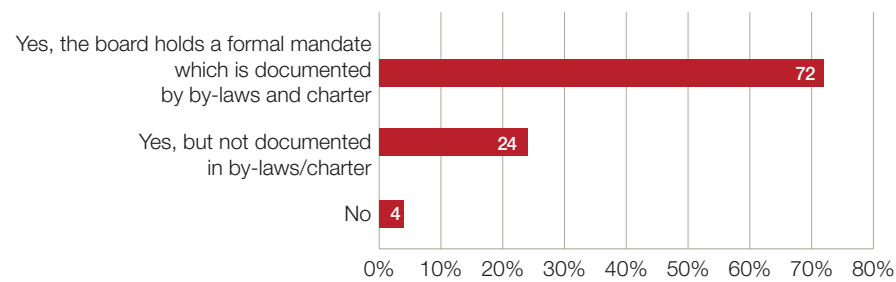
Over half of the smaller NPOs consulted involve their boards in fundraising efforts. Larger NPOs (with annual budgets above five million francs) involve their boards less frequently (37%). An additional 30% wish to involve the board in the future.

How well does your board understand the mission and strategy of your organisation?



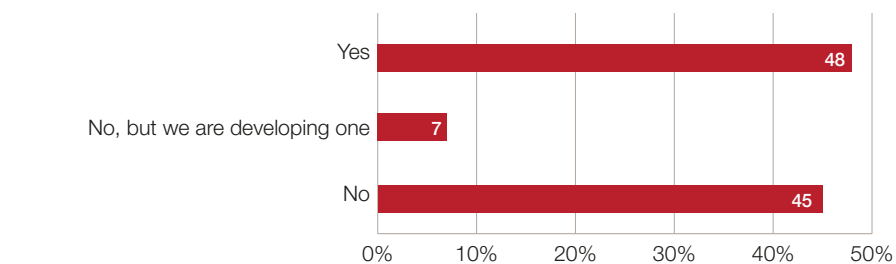


Does your board have a clear mandate?



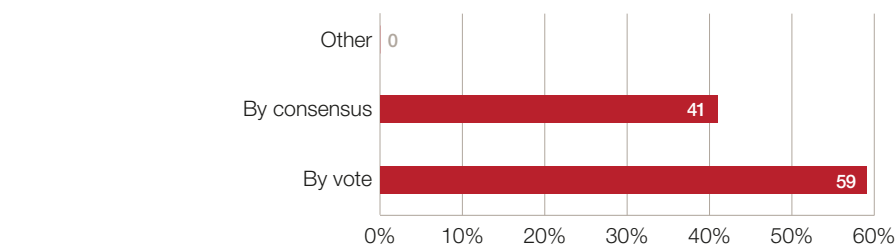
Answer	%
Yes, the board holds a formal mandate which is documented by by-laws and charter.	72%
Yes, but not documented in by-laws/charter	24%
No	4%

Do you have a conflict of interest policy?



Answer	%
Yes	48%
No, but we are developing one	7%
No	45%

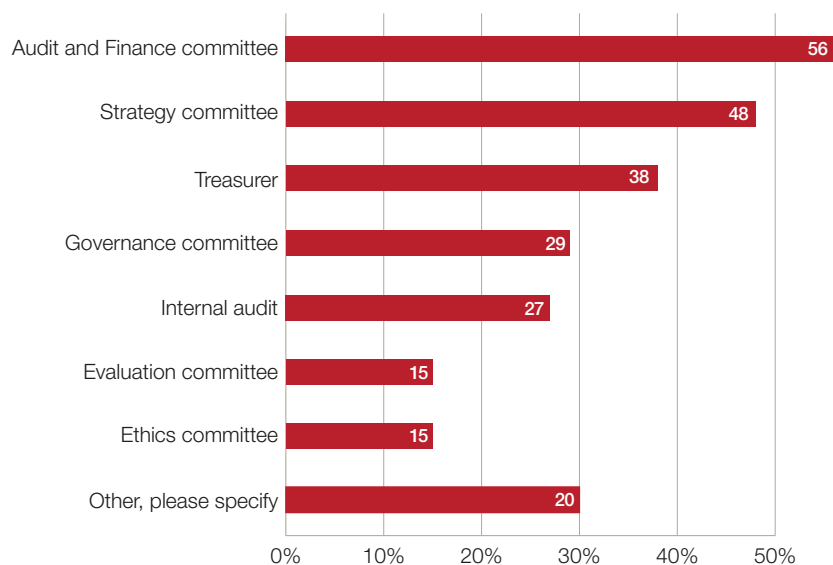
How does your board make decisions?



Answer	%
Other	0%
By consensus	41%
By vote	59%

What type of governance committee does your organisation have in place?

Answer	%
Audit and Finance committee	56%
Strategy committee	48%
Treasurer	38%
Governance committee	29%
Internal audit	27%
Evaluation committee	15%
Ethics committee	15%
Other, please specify	30%



Are your board members involved in fundraising efforts of your organisation?

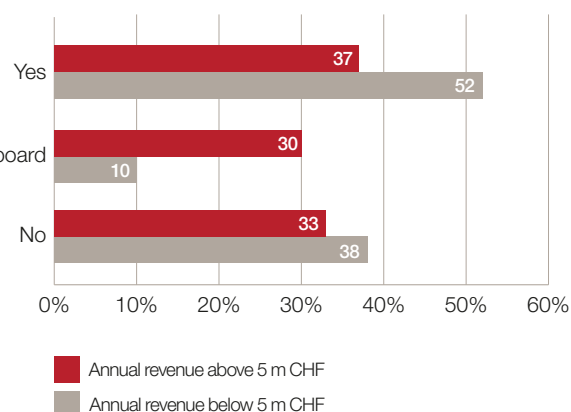
Annual revenue above 5 m CHF

Answer	%
Yes	37%
No, but we would like to involve the board	30%
No	33%

Annual revenue below 5 m CHF

Answer	%
Yes	52%
No, but we would like to involve the board	10%
No	38%

No, but we would like to involve the board

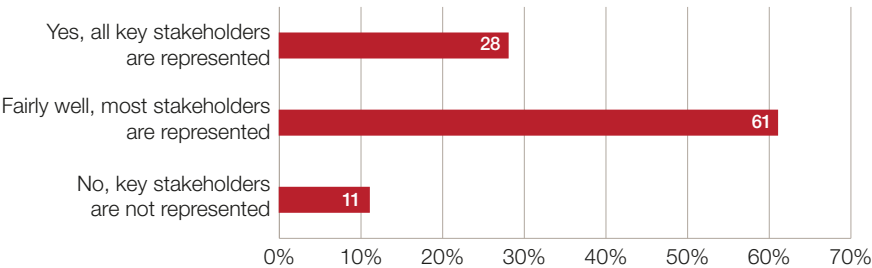


The governing boards of the surveyed organisations are generally representative of their stakeholders. They are, however, less frequently gender balanced. Based on research that shows that a minority can influence the majority as soon as a third is reached, we consider a third to be the threshold for a group to reach gender balance. Women and men are fairly well represented on 60% of the boards. Some 20% reach gender parity. Women account for less than 25% of two out of five boards.

The NPO’s senior leadership teams are generally better balanced. Results, however, differ for small and large NPOs. Three out of five NPOs with annual revenues higher than five million francs have fairly well balanced senior leadership teams, with one third reaching gender parity. Smaller NPOs have fairly balanced executive teams in close to 70% of cases, with over half of them having men and women equally represented. We note that a good third of the NPOs surveyed have fewer than 25% of women in senior leadership positions.

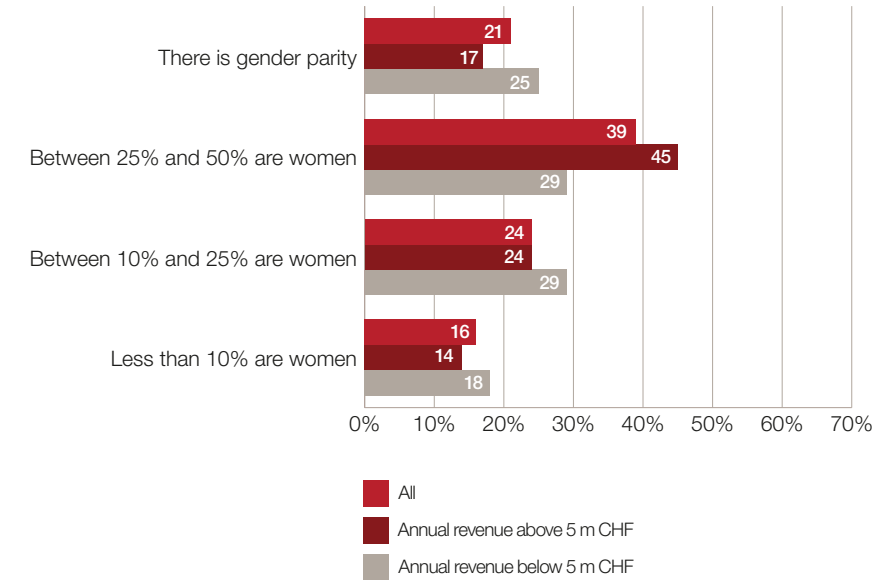
The high representation of women in senior leadership roles is positive news. The challenge will be to ensure this pipeline of talent is translated into increasing representation of women at the top.

Is your board representative of your organisation’s key stakeholders?



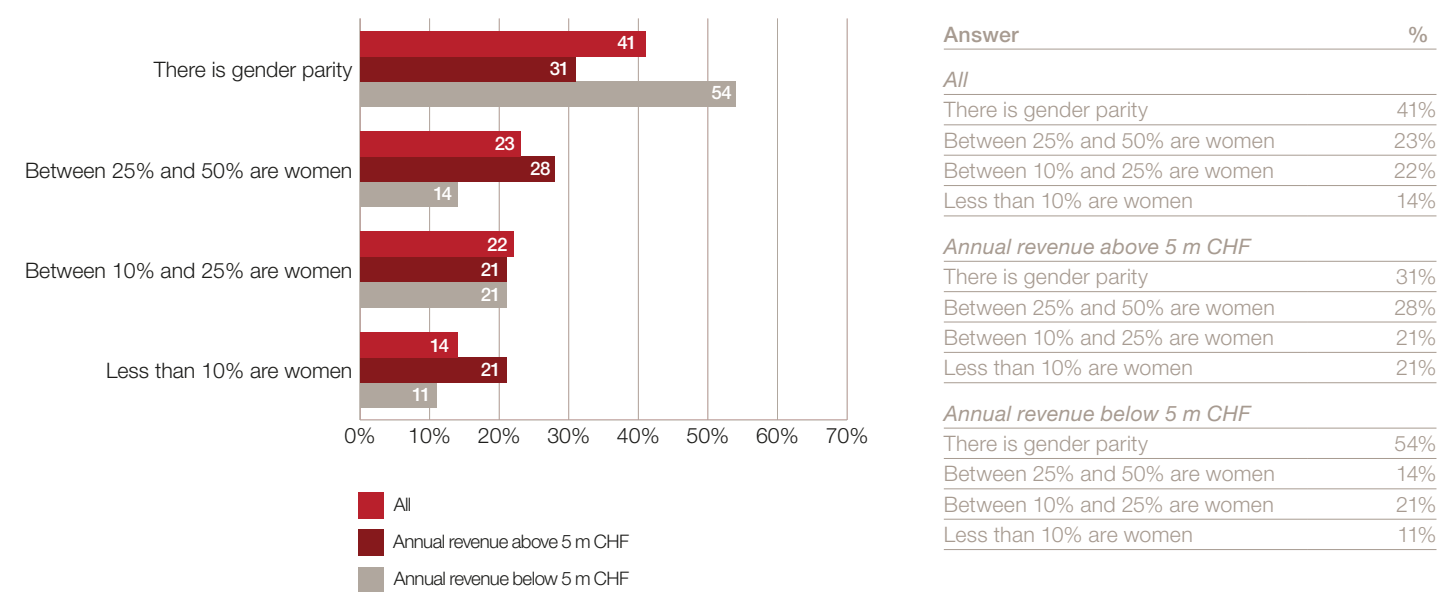
Answer	%
Yes, all key stakeholders are represented	28%
Fairly well, most stakeholders are represented	61%
No, key stakeholders are not represented	11%

Is there gender balance in your board?



Answer	%
<i>All</i>	
There is gender parity	21%
Between 25% and 50% are women	39%
Between 10% and 25% are women	24%
Less than 10% are women	16%
<i>Annual revenue above 5 m CHF</i>	
There is gender parity	17%
Between 25% and 50% are women	45%
Between 10% and 25% are women	24%
Less than 10% are women	14%
<i>Annual revenue below 5 m CHF</i>	
There is gender parity	25%
Between 25% and 50% are women	29%
Between 10% and 25% are women	29%
Less than 10% are women	18%

Is there gender balance in your senior leadership team?



NPOs are generally satisfied with the ordinary audit as a means of demonstrating good governance.

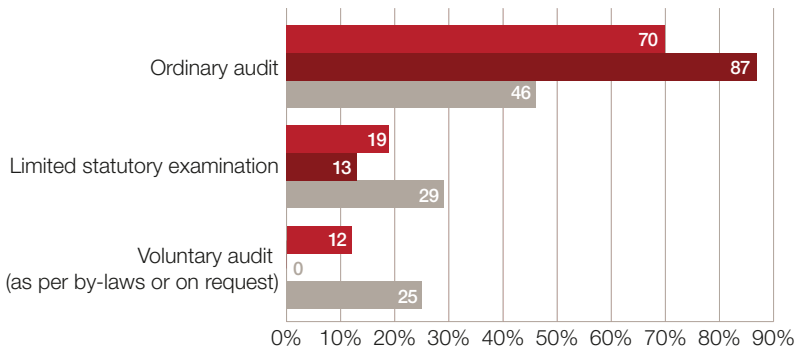
A majority of NPOs publish financial information on their website, a practice that is more common among larger NPOs.

6. Reporting and audit

The ordinary audit is the more frequent type of audit performed on the financial statements of NPOs, well ahead of the limited statutory review and the voluntary audit.

Swiss GAAP FER and the Swiss Code of Obligations are the two most widely used financial reporting standards. The latter is more frequent among smaller organisations, whereas larger entities have a strong preference for the former. The respondents are generally satisfied with the standard they currently apply and do not envisage any change in the next three years.

What type of audit is performed on your financial statements?



- All
- Annual revenue above 5 m CHF
- Annual revenue below 5 m CHF

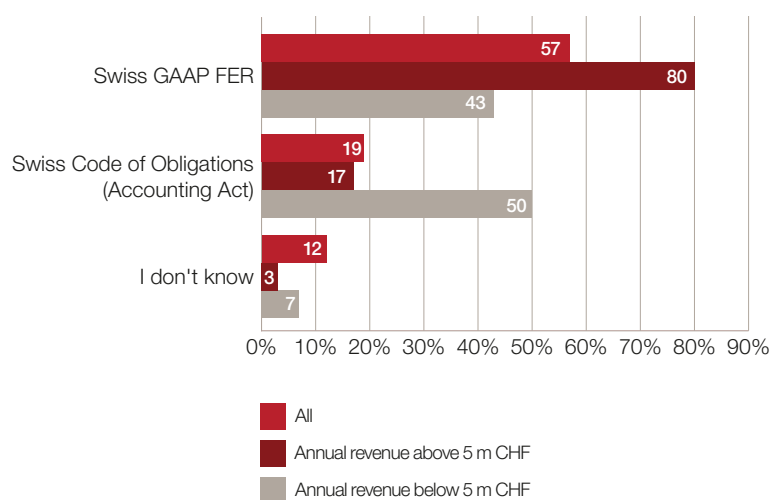
Number of answers:

Answer	%
<i>All</i>	
Ordinary audit	70%
Limited statutory examination	19%
Voluntary audit (as per by-laws or on request)	12%
<i>Annual revenue above 5 m CHF</i>	
Ordinary audit	87%
Limited statutory examination	13%
Voluntary audit (as per by-laws or on request)	0%
<i>Annual revenue below 5 m CHF</i>	
Ordinary audit	46%
Limited statutory examination	29%
Voluntary audit (as per by-laws or on request)	25%



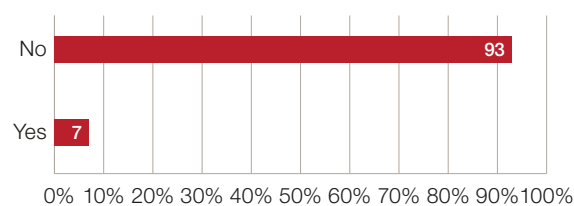
What accounting standards do you currently apply?

Answer	%
<i>All</i>	
Swiss GAAP FER	57%
Swiss Code of Obligations (Accounting Act)	19%
I don't know	12%
<i>Annual revenue above 5 m CHF</i>	
Swiss GAAP FER	80%
Swiss Code of Obligations (Accounting Act)	17%
I don't know	3%
<i>Annual revenue below 5 m CHF</i>	
Swiss GAAP FER	43%
Swiss Code of Obligations (Accounting Act)	50%
I don't know	7%



Are you considering changing your accounting standards in the next three years?

Answer	%
No	93%
Yes	7%



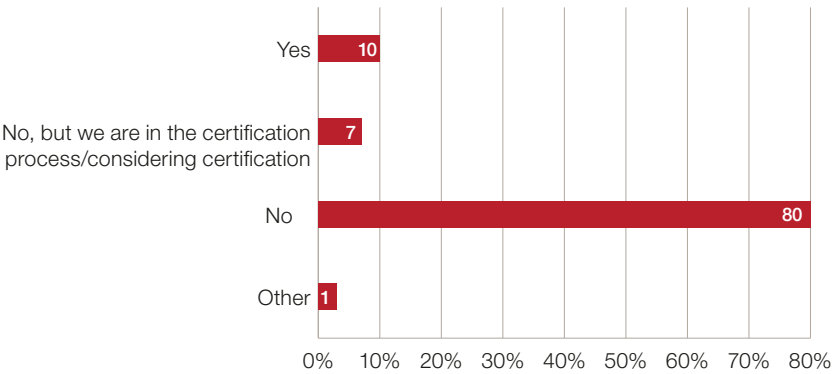
NPOs are generally satisfied with the audit as a means of confirming good use of funds and gaining donor confidence. Among the consulted NPOs, there seems to be limited appetite for other standards or external certifications as a way of demonstrating good governance. Only 3% use reporting standards such as the Global Reporting Initiative (GRI) for their annual report, though there is some indication that this percentage may rise in the future.

Another 13% are considering applying GRI for future reports. External certification schemes such as those provided by organisations including Zewo do not seem common among the respondents.

Donor reporting requirements are generally well perceived and aligned with the NPO's own reporting, which may explain to some extent the limited interest in additional assurance outside the external audit.

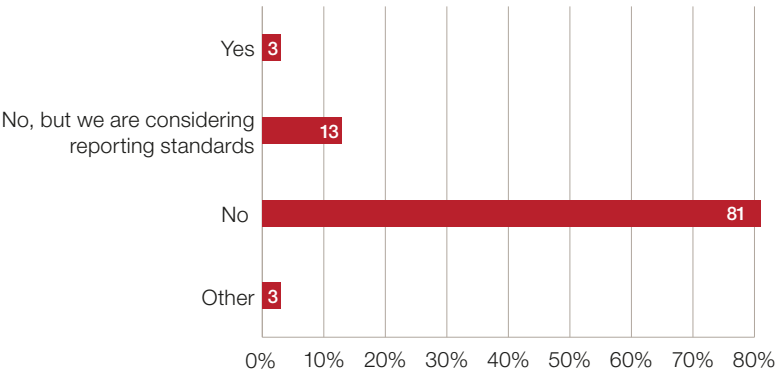
There is however a trend among NPOs to include a review of efficient use of funds as part of their regular audit.

Is your organisation certified by Zewo or another body?



Answer	%
Yes	10%
No, but we are in the certification process/considering certification	7%
No	80%
Other	3%

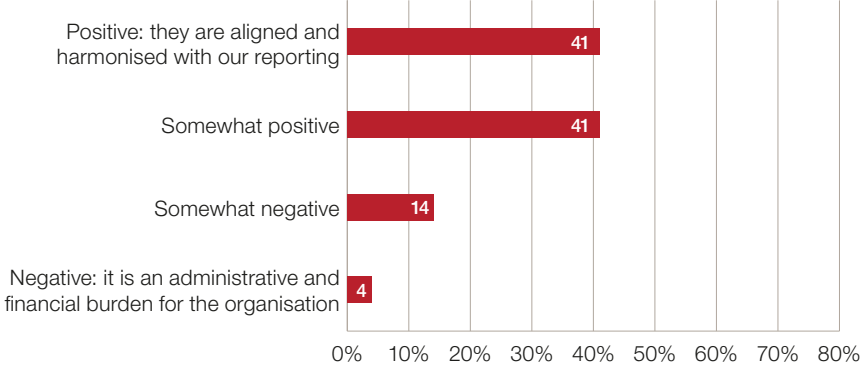
Do you apply the GRI reporting standard for NGOs for your annual reports?



Answer	%
Yes	3%
No, but we are considering reporting standards	13%
No	81%
Other	3%

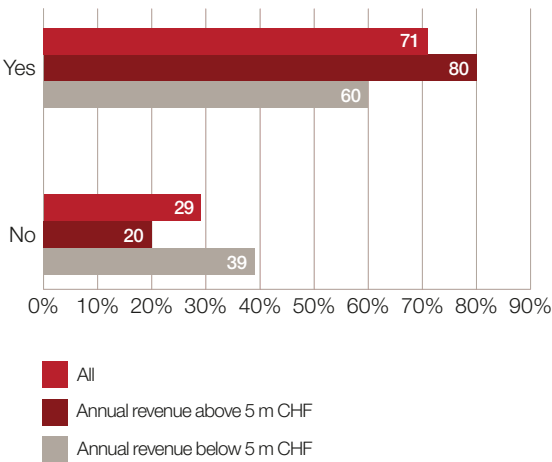
How do you perceive the donor reporting requirements?

Answer	%
Positive: they are aligned and harmonised with our reporting	41%
Somewhat positive	41%
Somewhat negative	14%
Negative: it is an administrative and financial burden for the organisation	4%



NPOs are generally transparent. Over two thirds of the NPOs surveyed publish financial information on their website. Larger organisations tend to be more transparent about their financial information than smaller ones.

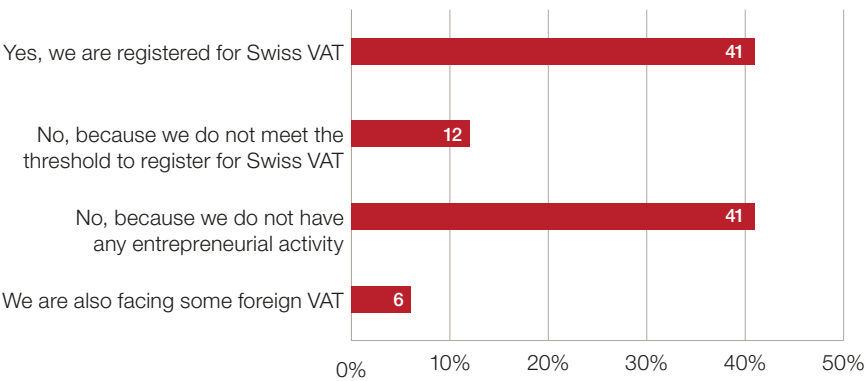
Do you publish financial information on your website?



Answer	%
All	
Yes	71%
No	29%
Annual revenue above 5 m CHF	
Yes	80%
No	20%
Annual revenue below 5 m CHF	
Yes	60%
No	39%

Two out of five participants are registered for value-added tax (VAT). The same proportion of respondents indicate that they are not registered because of the absence of entrepreneurial activity. Another 6% are also subject to foreign VAT. Membership fees, donations and grants are also considered as entrepreneurial activity, and could make an NPO eligible for (full or partial) VAT recovery and thereby improve its financial situation. Changes to the current VAT regulations are expected soon. A regular review is advisable to identify any potential for optimisation.

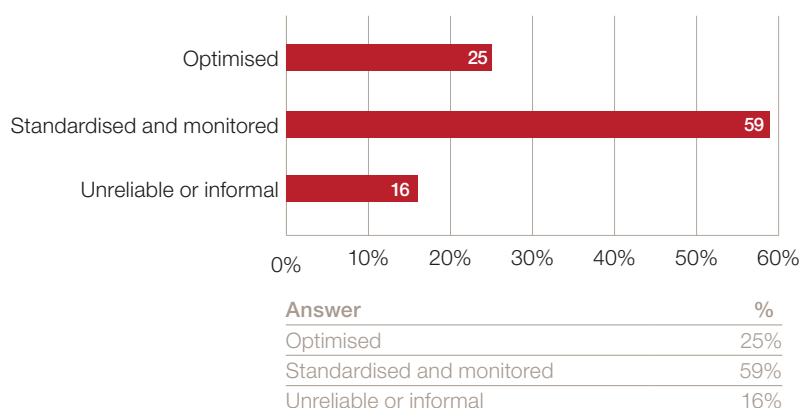
Is Swiss VAT a topic of relevance for your organisation?



Answer	%
Yes, we are registered for Swiss VAT	41%
No, because we do not meet the threshold to register for Swiss VAT	12%
No, because we do not have any entrepreneurial activity	41%
We are also facing some foreign VAT	6%

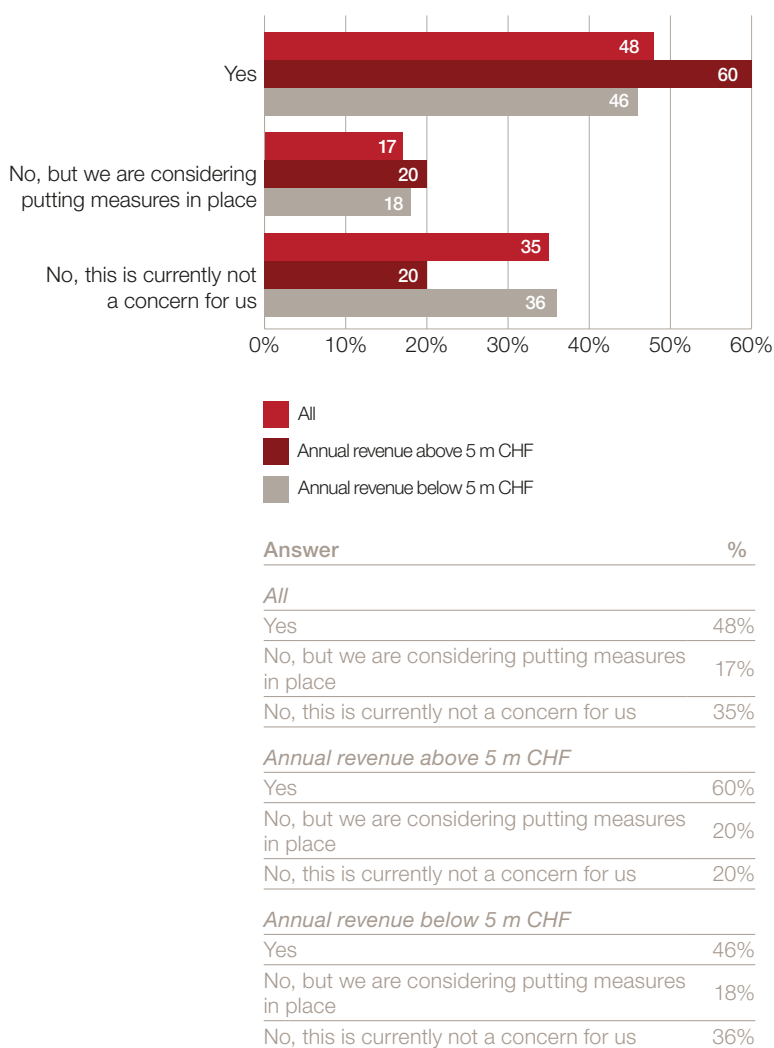
Two out of five NPOs surveyed have standardised internal control systems in place with operating principles defined and documented and control activities regularly monitored. Another quarter of respondents go one step further and have an integrated system in place that harmonises the internal control functions with other control functions of risk management. Compared to the survey carried out two years ago, the percentage of such optimised internal control systems has increased, indicating maturity and better management of risks among the NPOs surveyed.

How would you rate the quality of your internal control?



Cybersecurity threats are increasingly taken seriously by NPOs. Some 60% of the larger NPOs surveyed and a third of the smaller entities have put measures in place to protect their organisation from cyber criminality. Additionally, one in five is considering putting measures in place. Still a third of the respondents do not consider cyber criminality to be a concern to them, despite fast growing threats and the resulting reputational and financial loss organisations may incur in the case of an incident. These results are aligned with those obtained in the PwC Global Economic Crime survey 2016, which illustrate the same level of awareness among the 6,000 people in 115 countries who participated.

Have you put measures in place to protect your organisation from cyber criminality?



Data analytics is increasingly popular among NPOs as a means of improving programme perfectiveness.

7. Strategy, performance and impact

A large number of the NPOs that operate in a development-related field of work have their strategy aligned with the Sustainable Development Goals (SDGs) or are in the process of aligning it.

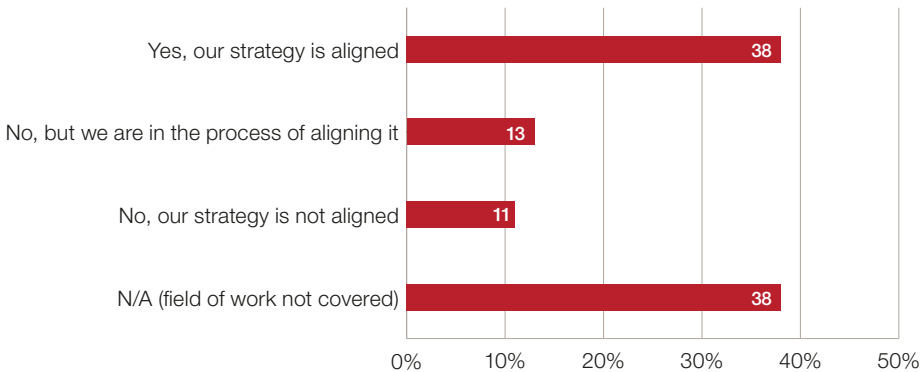
The priorities defined in the strategy are generally cascaded down to the staff level. The majority of NPOs surveyed have staff performance objectives and targets aligned with the organisation’s strategy and priorities. A large majority of the NPOs that have an appraisal system in place use it to recognise and promote high performers, but also to identify and

address low performance effectively. Staff performance systems are common among NPOs with annual revenues above five million francs, while only about half of the smaller entities surveyed have such a system in place.

In recent years many organisations have started to transform their performance management processes, realising that bureaucratic administrative processes were no longer providing the expected value in today’s world. These organisations are now placing more value on providing

in-the-moment or instant feedback, with a stronger emphasis on learning and development. When designing performance management processes, it is critical to take the organisational strategy, culture, structure and processes into account – there is no one-size-fits-all solution. However, there is clear evidence that the longer the time between the action of an employee and the feedback given by a supervisor, the more bias is introduced and as a result, the quality of the feedback decreases.

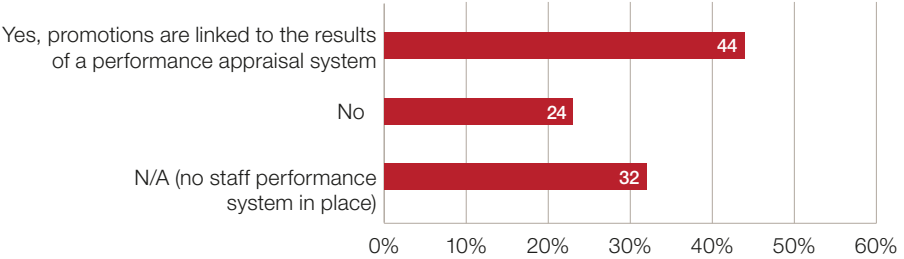
Is your strategy aligned with one or several of the Sustainable Development Goals (SDGs)?



Answer	%
Yes, our strategy is aligned	38%
No, but we are in the process of aligning it	13%
No, our strategy is not aligned	11%
N/A (field of work not covered)	38%

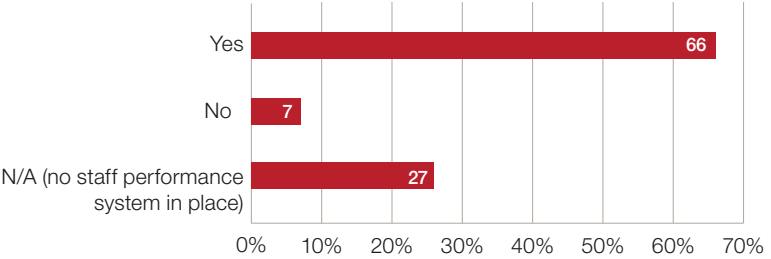
Are you able to promote and/or appropriately recognise staff members based on high performance?

Answer	%
Yes, promotions are linked to the results of a performance appraisal system	44%
No	24%
N/A (no staff performance system in place)	32%



Are you able to identify and address low performance amongst your staff members effectively?

Answer	%
Yes	66%
No	7%
N/A (no staff performance system in place)	27%

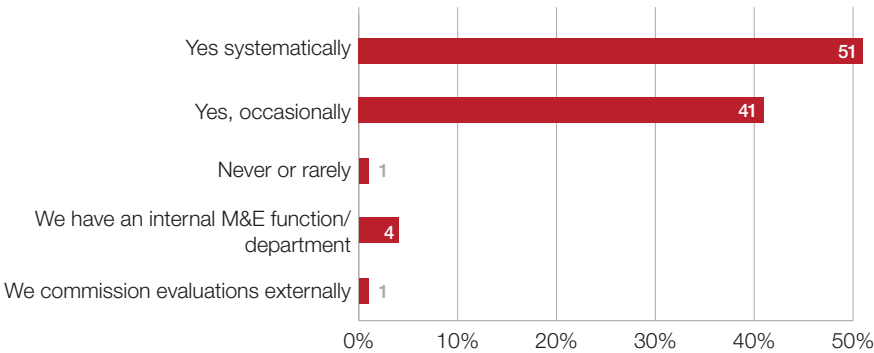


Almost all NPOs evaluate their programmes and projects systematically or at least occasionally. Programme staff usually carry out these evaluations internally. Only a small minority have a dedicated internal M&E (Monitoring & Evaluation) function or department in place. The NPOs surveyed rarely commission evaluations externally.

A good half of the surveyed NPOs benchmark their organisations against a group of peers, but only half of them use the information gathered strategically to improve their organisation’s performance.

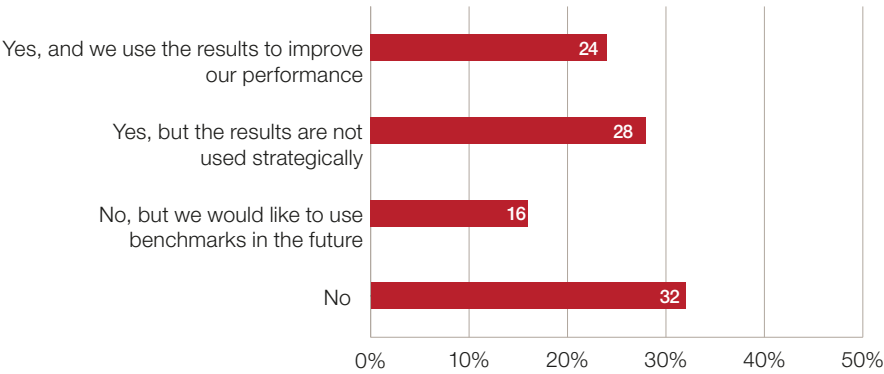
Data analytics is one of the means used to benchmark performance. An increasing number of NPOs apply data analytics to improve the effectiveness of their programmes (58%) aligned with the trends we observe in the market. Half of the NPOs that currently use data analytics have started only recently, and an additional 12% are considering using it in the future.

Do you evaluate your programmes and projects?



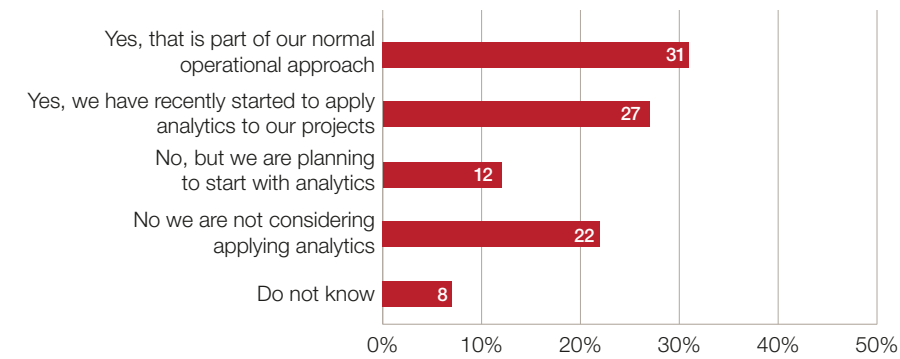
Answer	%
Yes systematically	51%
Yes, occasionally	41%
Never or rarely	1%
We have an internal M&E function/department	4%
We commission evaluations externally	1%

Do you benchmark your organisation against a peer group of organisations?



Answer	%
Yes, and we use the results to improve our performance	24%
Yes, but the results are not used strategically	28%
No, but we would like to use benchmarks in the future	16%
No	32%

Are you using analytics to improve the effectiveness of your projects?



Answer	%
Yes, that is part of our normal operational approach	31%
Yes, we have recently started to apply analytics to our projects	27%
No, but we are planning to start with analytics	12%
No we are not considering applying analytics	22%
Do not know	8%



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