

# Organisational Financial Literacy and UK Non-Profit Sustainability

*A Sage Foundation Whitepaper  
developed in collaboration with Charity  
Digital and Solid Base Non-Profit Support*



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# Summary

This report shares research on the ability of UK non-profit organisations to produce timely and accurate financial data and make informed decisions using that data (which we term Organisational Financial Literacy). This assessment was performed as part of the Organisational Financial Literacy Project – a collaboration between Charity Digital and Sage Foundation, in consultation with Solid Base Non-Profit Support. The findings in this report are followed by recommended actions and next steps to address the issues. Our continued work and collaboration with organisations across the UK will help us toward our goal of raising the Organisational Financial Literacy of non-profits.

Our research shows that 38% of the staff involved in the finance function of UK non-profits lack confidence across all areas of finance and this contributes to relatively low Organisational Financial Literacy. Inability to perform financial tasks is a major contributory factor behind relatively low Organisational Financial Literacy as it leads to insufficiently detailed financial records, poor impact reporting and a lack of financial planning. This makes it difficult to provide transparency and accountability as to how public and governmental funds are spent, which, in turn, places non-profit organisations in an unenviable position when applying for funding, especially in a post-COVID-19 financial landscape. Ultimately, all these points can affect the sustainability of a non-profit organisation and its ability to continue to serve its beneficiaries.

We identified a number of factors contributing to the current level of Organisational Financial Literacy within the sector. These include the lack of a designated finance person within the organisation or non-finance people fulfilling the finance function. This is especially apparent in smaller organisations with less than £1m annual income. This can result in too little time spent on finance activities, due to being pulled away by other, non-finance-related duties.

Other factors include knowledge gaps, which result in too much time being spent on basic tasks and the inability to perform more complex tasks, as well as the under-utilisation of software and tools, owing to a lack of understanding or access and the complexity of the products (real and perceived).

Four primary areas emerged from the research as significant avenues for non-profits to pursue in their goal of running their finances better. These areas were as follows:

1. Practical: Software and Processes
2. Educational: Training and Resource
3. Supportive: Extended Support Service
4. Social: Networking and Best Practices

The final chapter of the report explores different development actions from the four avenues that can be taken to support non-profits in improving their Organisational Financial Literacy. It also encourages collaborators from other organisations to get involved in helping the non-profit sector increase its financial capability.

# Chapter One:

## Introduction

### Background

The Organisational Financial Literacy Project is a collaboration between Charity Digital and Sage Foundation, in consultation with Solid Base Non-Profit Support, with the aim of increasing Organisational Financial Literacy within the non-profit sector.

The two primary outcomes of the project are to gather research about the current state of the sector with respect to Organisational Financial Literacy and to build a set of tools and resources to help those in finance roles within organisations increase their confidence and proficiency in all aspects of finance management. This suite of tools and resources will be designed to help non-profit organisations attain financial maturity.

### What is 'Organisational Financial Literacy'?

We define Organisational Financial Literacy as having the tools, capacity and expertise to be able to manage organisational finances. We have developed the model in Figure 1 to broadly represent the different levels of Organisational Financial Literacy and some of the activities you may find within those categories. These levels start with bookkeeping, then move through accounting and financial management to finish with financial planning and analysis. As organisations grow in financial maturity and develop a deeper understanding of financial processes, they will gain a higher degree of Organisational Financial Literacy and will move up through the levels.

**Figure 1. Four Levels of Organisational Financial Literacy (OFL)**

Bookkeeping	Accounting	Financial Management	Financial Planning and Analysis
<p><b>Basic:</b></p> <ul style="list-style-type: none"> <li>• Sales ledger</li> <li>• Purchase ledger</li> <li>• Payroll</li> <li>• Expenses</li> </ul> <p><b>Complex:</b></p> <ul style="list-style-type: none"> <li>• Trial balance</li> <li>• Bank reconciliation</li> <li>• Petty cash reconciliation</li> <li>• Journals</li> <li>• VAT return</li> <li>• HMRC (P32) (Payroll)</li> </ul>	<ul style="list-style-type: none"> <li>• Balance sheet</li> <li>• Profit &amp; loss</li> <li>• Deferred income</li> <li>• Depreciation</li> <li>• Prepayments</li> <li>• Accruals</li> <li>• Cashflow analysis</li> <li>• Department analysis</li> <li>• Funder reporting</li> <li>• Income reliance</li> <li>• Fund management</li> </ul>	<ul style="list-style-type: none"> <li>• Budgeting</li> <li>• Forecasting</li> <li>• Cashflow forecasting</li> <li>• Profitability</li> <li>• Variances</li> <li>• SOFA Reporting</li> <li>• Performance vs last year</li> <li>• Performance vs forecast</li> </ul>	<ul style="list-style-type: none"> <li>• Business Planning</li> <li>• Financial Strategy</li> <li>• Reserves</li> <li>• Investments</li> <li>• Liquidity</li> <li>• Solvency</li> </ul>

**Figure 2. Measures and Outcomes of Organisational Financial Literacy (OFL)**

Some measures of OFL	Some outcomes of increased OFL
<ul style="list-style-type: none"> <li>• Understand and report current financial position and risk</li> <li>• Manage funds</li> <li>• Operate an accountancy method using fit-for-purpose software</li> <li>• Do routine finance work effectively</li> <li>• Produce accurate and timely balances, accounts and reports</li> </ul>	<ul style="list-style-type: none"> <li>• Ability to consistently understand and produce accurate and timely information and reports</li> <li>• Make informed financial decisions</li> <li>• Carry out meaningful financial planning, forecasting and analysis</li> <li>• Sound finances and sustainable organisations</li> <li>• Greater transparency</li> </ul>

A number of factors determine an organisation's level of Organisational Financial Literacy, from understanding the current financial position of the organisation up to the production of reports and accounts. As workers within organisations increase their abilities in these areas, the organisation will benefit from growth and greater accountability.

Ultimately organisations with higher levels of organisational financial literacy should be more successful and sustainable. They will have the data to support the winning, delivery and reporting on grants; discipline to manage growth and navigate setbacks; and the information to provide detailed reporting and accountability to their stakeholders.

In summary, organisations with a higher level of organisational financial literacy will have greater accountability and will be a more appealing prospect to potential funders.

## How we conducted the research

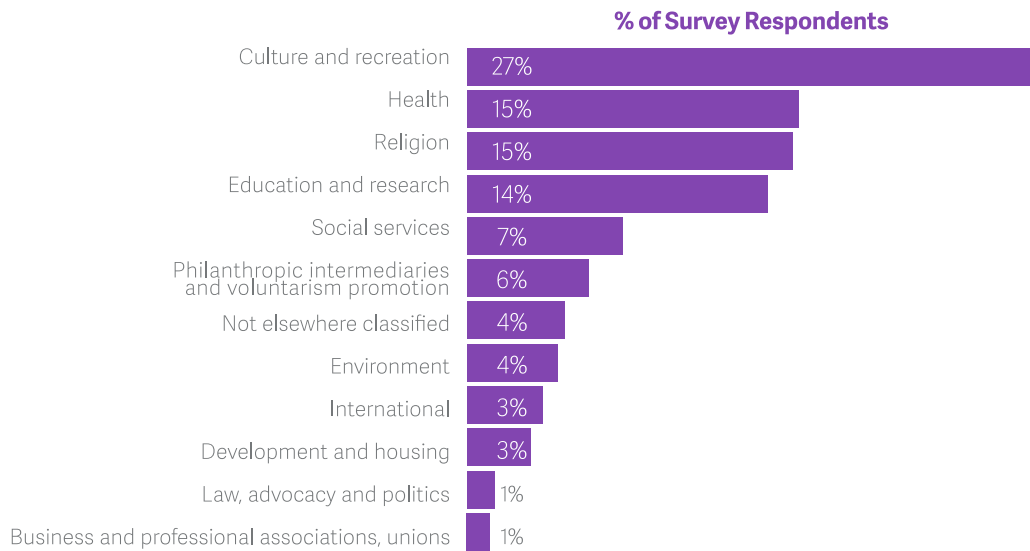
The Organisational Financial Literacy project comprises three phases. Research is a significant feature of the first two, which are now completed.

The third phase, **Building, Testing and Delivery** of the Organisational Financial Literacy Programme and its components, has now started and will expand in scope after the publication of this Whitepaper and Infographic. To assist the delivery of the third phase we are seeking feedback and collaboration from interested parties.

We conducted this research of UK Non-profits through an online survey, a focus group and a series of interviews with persons responsible for finance activities within UK non-profit organisations.

The survey took place between November and December 2019, resulting in 271 respondents from organisations across the UK. The survey respondents worked in organisations across a range of activity areas within the wider non-profit sector, with the most common areas being culture and recreation (27%), health (15%), religion (15%) and education and research (14%).

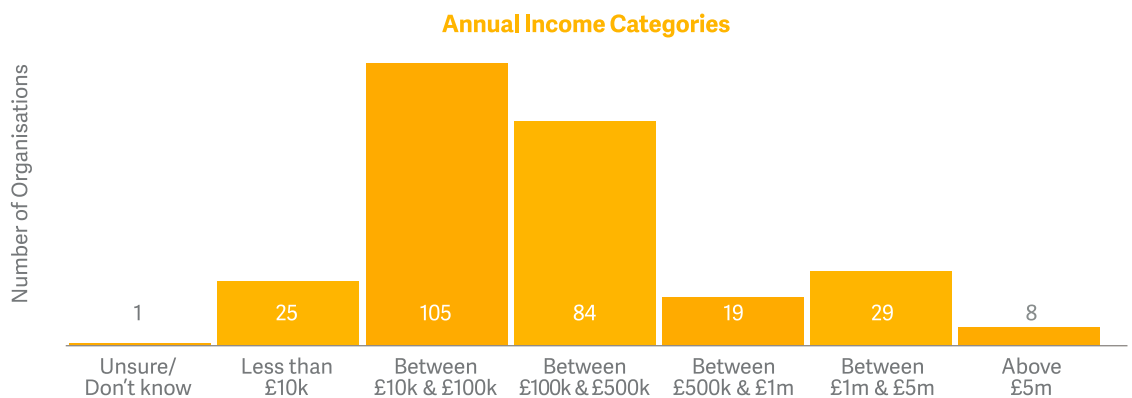
**Figure 3. Survey Respondents by their Organisation's Primary Area of Activity, N=271**



The organisations ranged in size as defined by annual income from micro-organisations with less than £10,000 (9%) to large organisations with over £5m of income (3%).

The majority of the organisations in the survey fell into the annual income categories of £10k - £100k (39%) and £100k - £500k (31%).

**Figure 4. Organisations by Annual Income Categories, N=271**



Survey participants reported that their organisations receive their income from a variety of funding sources, with 20% of those surveyed receiving the majority of their funds from public fundraising sources. Another 14% receive the majority of their funds from grants and 13% from trading. We found that 36% of organisations reported they receive the majority of their funds from a mix of sources, which may provide more stability through diversity of income streams.

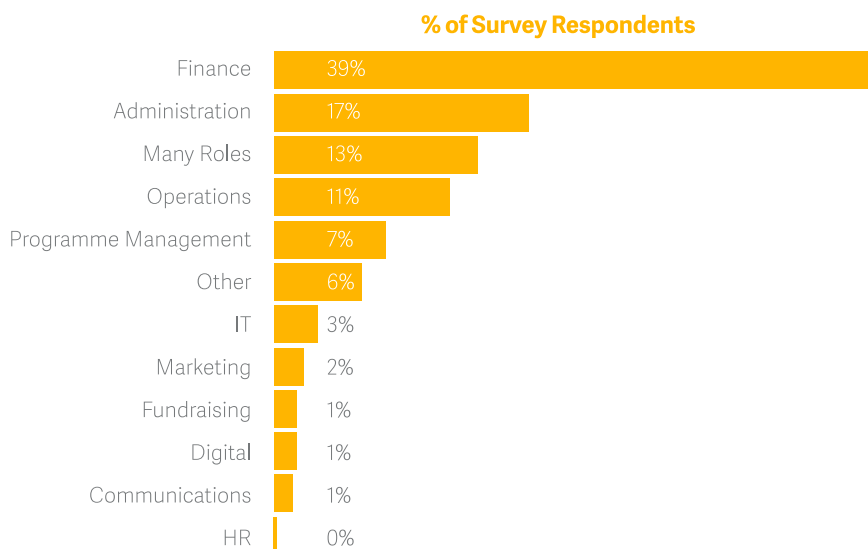
**Figure 5. Where Organisations get the Majority (60% or more) of their Funding, N=271**



However, when analysed by organisation size, we found that the smaller organisations tended to rely on receiving the majority of their income from a single source, such as solely from public fundraising or grants. Fewer of the larger organisations were primarily reliant on single sources such as fundraising or grants but were either more diversified or relied on corporate funds, commissioned services and other sources of income.

The survey also examined those working in dedicated finance roles, as well as those performing finance activities alongside other roles. This meant that respondents held varying roles and skill levels.

**Figure 6. Survey Respondents' Primary Roles within their Organisations, N=271**



The interviews and focus group followed the survey and were designed to deepen our understanding and shape possible responses. The first phase of interviews particularly focused on exploring the key themes. We built on those themes in the focus group, revealing development avenues to address needs. In the second round of interviews, we validated the development avenues with the interviewees and collected more insights on the previous work. As this second phase of interviews occurred during the COVID-19 crisis, we were able to take account of some of the changes in the environment during this time.

# Chapter Two:

## *Why is Organisational Financial Literacy Important?*

### **Key Takeaways from the Importance of Organisational Financial Literacy**

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- Organisational Financial Literacy is critical to creating accountability within the organisation
- Accountability is necessary to maintain trust with a supporter base
- Organisational Financial Literacy has an important role to play in ensuring sustainability

### **Pressures and the Cycle of Accountability**

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Non-profit organisations operate under a range of pressures. It is in the face of these pressures that the relationship between Organisational Financial Literacy and accountability comes into play.

Expectations from both the public and from government put non-profit organisation operations under the spotlight of constant scrutiny. An increasing focus on performance metrics and marketisation in the private sector is in turn introducing these pressures in the non-profit sector. These pressures are further exacerbated by frequent shortages of financial and physical resources. Additionally, social media and news reporting then act to amplify any perceived shortcomings. This creates a need for accountability (we define accountability as the giving and demanding of reasons for conduct) and non-profit professionals – particularly those responsible for a finance function within their organisation – must be accountable to stakeholders and donors to justify where and how money is being spent.

**Figure 7. The Cycle of Accountability**





Accounting and financial management are usually viewed as purposeful activities, directed towards specific ends. In the non-profit sector, this impact is usually measured by engagement with service users and by meeting targets set by trustees. These non-profit organisation stakeholders require information to measure whether operations are succeeding or not. Because they are often not involved in the day-to-day running of the organisation, this information is typically provided by staff<sup>1</sup> in finance roles within organisations. The information is important for making decisions and judgements relating to involvement with, and support of, the organisation.

This is where the concepts of Organisational Financial Literacy and accountability intersect. As accountability demands that we have clear reasons for conduct we therefore need sound financial protocols in place to provide these reasons.

In short: stakeholders will want to know exactly where the money goes. And yet, [research indicates](#) that many non-profit organisation annual reports do not explicitly state their organisation's financial performance indicators and objectives. This creates an accountability vacuum.

## Breakdowns in the Cycle of Accountability

This information breakdown, and the associated lack of transparency within the sector is often understood to stem from a lack of resources: without proper allocation of said resources, a non-profit organisation's various activities will not operate successfully. Without prudent financial planning, non-profit organisations will struggle to plan existing activities or pilot new ones – which in turn will lead to further financial insecurity. Amidst wider concerns of public and private funds available to non-profit organisations in the wake of the COVID-19 pandemic, a sound understanding of non-profit organisational finances is imperative.

With alarming predictions of the economic fallout of COVID-19 on the UK non-profit sector, many organisations may find themselves having to justify both current spend and appeals for future funding.

This assessment, in the eyes of both governmental organisations and the wider, donating public, will not favour organisations that cannot provide sound financial records and projections.

## Organisational Financial Literacy and Sustainability

Ultimately, Organisational Financial Literacy can help improve the sustainability of Non-profits. As well as helping maintain income from grant givers and the donating public, it is vital in helping to control costs and ensure that cash flows are properly forecasted, managed and kept within the operating limits of the organisation.

The findings of the survey conducted by Charity Digital and Sage support our assessment that the financial capabilities of the UK non-profit sector need improvement, more so than ever before. The findings also demonstrate the importance of appropriate resourcing and the need to improve the financial understanding and skills amongst non-profit staff performing finance activities.

**Figure 8. Breakdowns in the Cycle of Accountability**



<sup>1</sup>Throughout this paper we use the terms *staff* and *worker* to denote employees, long-term contractors and long-term volunteers.

# Chapter Three:

## *Detailed Learnings*

### Key Learnings from our Research

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- Organisations surveyed have a range of levels of Organisational Financial Literacy and many non-finance staff rate their skills as low or basic
- Capacity was one of the primary obstacles to achieving higher levels of Organisational Financial Literacy and is attributable to four main causes
- Other obstacles include cost and perceived levels of difficulty associated with financial management
- Four avenues have been identified to help non-profits pursue increased levels of Organisational Financial Literacy: Practical, Educational, Supportive and Social

Many non-profit workers responsible for filling the finance function within their organisations are feeling a burden of responsibility. The accountability deficit highlighted in the last chapter may often be deemed the sole responsibility of those tasked with finance management. This can lead to demoralisation if non-profit professionals are not properly supported: particularly if they lack the proper training and software necessary for higher-level financial planning.

An increase in the current levels of Organisational Financial Literacy will ease this pressure. To achieve this, issues of capacity and a lack of automated processes must also be addressed.

By providing more transparency for the significant impact that Organisational Financial Literacy has on a Non-profit's level of accountability, organisations will be able to secure more buy-in from internal team members and provide peer support for non-profit finance professionals with a low level of financial understanding and skills.

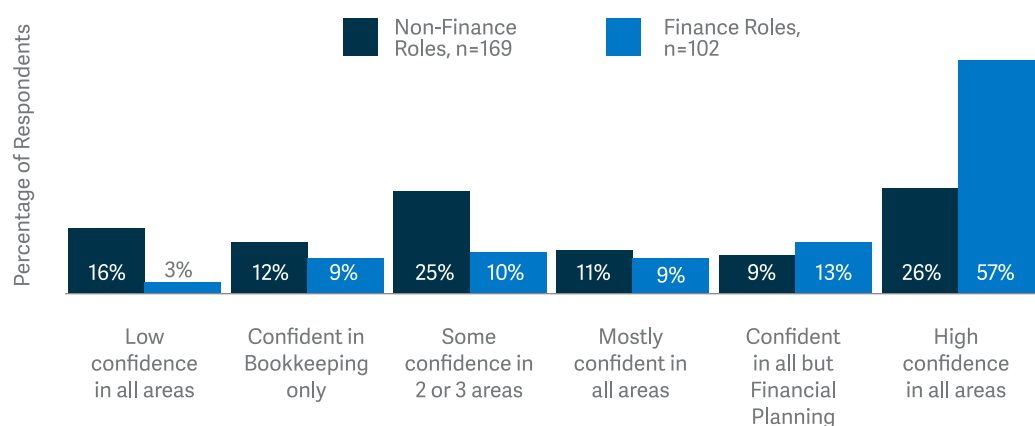
**“Because nobody else will do it,  
it falls on me to do it even though  
I’m often not sure what I’m doing!”**

- Survey participant, Founder at an environmental organisation, less than £10k annual income

## Current Levels of Organisational Financial Literacy

The survey asked 271 participants about their level of confidence in performing activities in the different financial areas of bookkeeping, accounting, financial management and financial planning & analysis. Responses were grouped by those employed in dedicated finance roles (finance professionals) and non-finance roles.

**Figure 9. Non-Profit Professionals' Self-reported Confidence in Four Skills Areas, N=271**



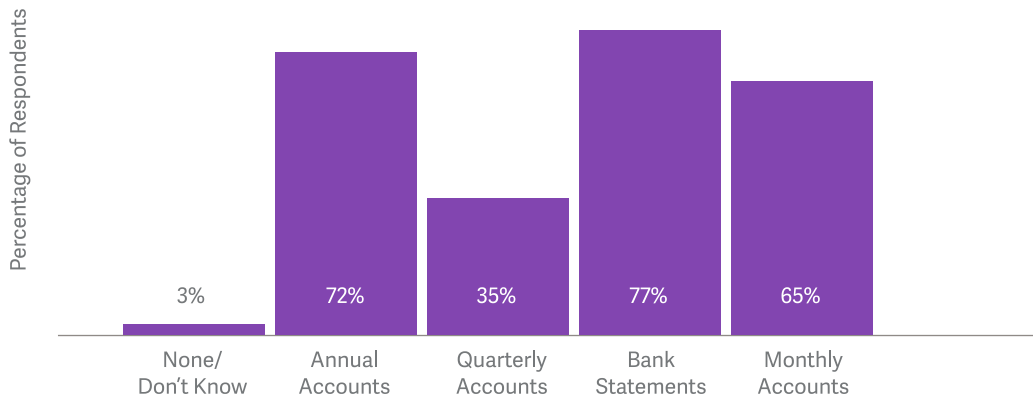
### Categories of Confidence in Four Skill Areas: Bookkeeping, Accounting, Financial Management, Financial Planning & Analysis

These findings unsurprisingly suggest that among those non-finance professionals fulfilling finance functions (which is common in smaller organisations), their confidence and level of financial understanding and skills are lower than among trained finance professionals. A substantial percentage cite their skills as either low or basic, with less than 30% having capabilities extending to financial planning. This indicates a reactive approach to managing non-profit finances among organisations lacking dedicated financial professionals.

For the 102 finance professionals surveyed, not surprisingly, there are higher levels of financial understanding and skills with over 50% confident in financial planning. This highlights the benefits to non-profit organisations of having trained financial staff on the payroll. However, there is still a noticeable percentage of these professionals who rate their skills as low or basic. Aggregating across all staff, just 38% of respondents are confident of their skills across all areas.

The survey also asked participants which processes they were using to monitor their organisation's current financial position and performance. Survey respondents were able to check all the methods that applied to their work, giving a picture of which methods were most frequently used, such as the checking of bank statements (77% of respondents) and the production of annual accounts (72% of respondents).

**Figure 10. Frequency of Use of Different Methods of Monitoring Finances, N=271**

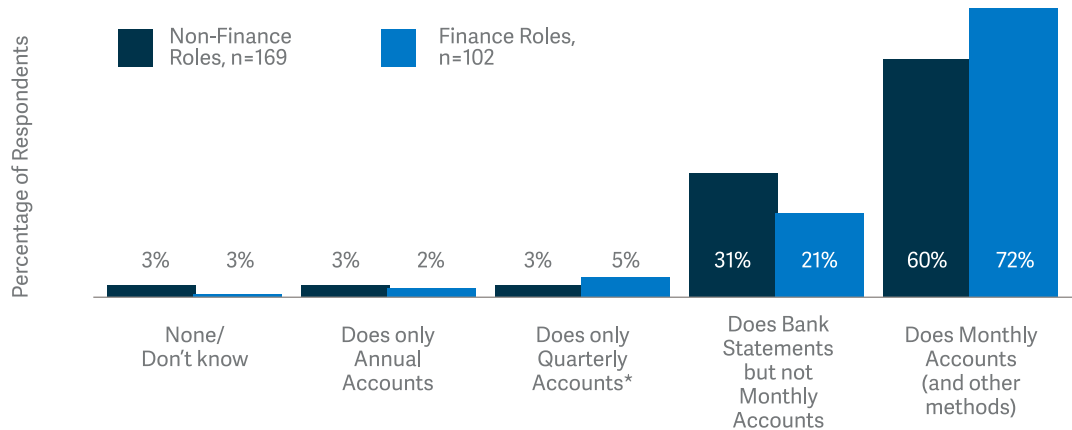


**Methods of Monitoring Financial Position  
(respondents selected all that applied to them)**

The analysis was further refined by looking at the comprehensiveness of different groupings of responses and the differences between the dedicated finance professionals and those in more general, non-finance roles.

Comprehensiveness was reviewed by comparing those groupings including producing monthly accounts, to those focusing on bank statements or quarterly or annual accounts).

**Figure 11. Use of Different Methods to Monitor Finance, grouped by Comprehensiveness, N=271**



\*One respondent in this category reported doing Quarterly and Annual Accounts Methods

Two conclusions can be drawn. First, it is clear that the dedicated finance professionals bring extra rigour compared to their more generalised compatriots, with 12% more of them producing monthly accounts.

Secondly, though both charts show a high use of monthly accounts there is still a worryingly large number who rely on monitoring bank accounts (and not producing monthly accounts) or less frequent production of accounts. This reliance on bank accounts rather than monthly accounts was more prevalent for those in non-finance roles (31%) than in finance roles (21%).

This once again raises the issue of accountability. A number of respondents showed that they are currently doing the bare minimum when it comes to financial management and control. Whether due to a lack of confidence, the right tools, or the proper training, this lack of control not only opens these organisations up to risk, it is also detrimental to funder confidence, as they are being provided with old data. An ability to provide up-to-date balances instills confidence and makes the Non-profit a more appealing prospect to potential funders.

These findings support previous assessments of levels of Organisational Financial Literacy amongst UK non-profit organisations, with a spread of processes being employed, including a number or those surveyed using relatively basic processes.

## Capacity

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Capacity issues, by which we mean the amount of work that can be done, are among the most prevalent of those reported. Indeed, capacity issues are common for nearly all organisations at some point in time.

Capacity was highlighted as a key obstacle to achieving higher Organisational Financial Literacy, impacting all skills levels, roles and organisation sizes. This issue can be attributed to four main causes:

1. The lack of a designated finance person within the organisation or non-finance people fulfilling the finance function. This was particularly the case in smaller organisations with less than £1m in income.
2. Too little time spent on the finance function, due to being pulled away by other, non-finance-related duties.
3. Knowledge gaps, resulting in too much time spent on basic tasks and the inability to perform more complex tasks.
4. Under-utilisation of software and tools, owing to lack of understanding and complexity of the products.

**“You can get the [finance] information, but it’s having the capacity, skills and knowledge to maintain and do that. To do it long term as part of your daily or weekly routine is quite a challenge. The software works if you know how to use it.”**

- Interview with CEO of young people’s mental health and wellbeing charity, £500k-£1m annual income



Capacity issues in the sector can seem difficult to address. However, our research supports the learnings of other organisations such as [CAF](#) and [Charity Times](#) that wider utilisation of appropriate tools can make a major contribution toward overcoming this obstacle.

If non-profits were better equipped with finance management software (as well as training in how to use these technologies) they would be able to automate time-consuming processes. This would allow them to ease capacity issues and therefore dedicate more working hours towards financial planning.

## Obstacles

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While capacity is identified as the primary obstacle to improving Organisation Financial Literacy, cost was the second most frequently cited obstacle, by both those in senior and non-senior roles, although it was less of a concern for those in larger organisations.

Interestingly, only those in finance roles identified a lack of tools as an obstacle to achieving Organisational Financial Literacy. This could indicate that only these professionals were aware of the functionality they were missing out on. This same discrepancy is borne out between larger and smaller organisations, albeit not to the same degree.

## Financial Software

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The participant recruitment process for the survey comprised a group from across the Charity Digital contact base and a group from the existing Sage user base. In understanding the tools used by non-profits to manage their finances we therefore focused on just the Charity Digital user base as the Sage data inevitably identifies Sage as being the primary software used by those participants.

The Charity Digital data identifies 'None/paper-based/Excel only' as the primary accountancy method.

These findings suggest that many non-profit organisations are either unaware of the tools available or cannot access these tools for other reasons (e.g. financial constraints, capacity issues).

This will be explored further in the next section.

**“I would like to fully exploit the software that we have. We only use about 50% of its full potential. This would make my job so much easier.”**

- Survey participant, Senior level in Operations role at a housing and social services organisation, £500k-1m annual income

## Four Avenues

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Four primary areas emerged from the research as significant avenues for Non-profits to pursue in their goal of running their finances better. These areas were as follows:

1. Practical: Software and Processes
2. Educational: Training and Resources
3. Supportive: Extended Support Service
4. Social: Networking and Best Practices

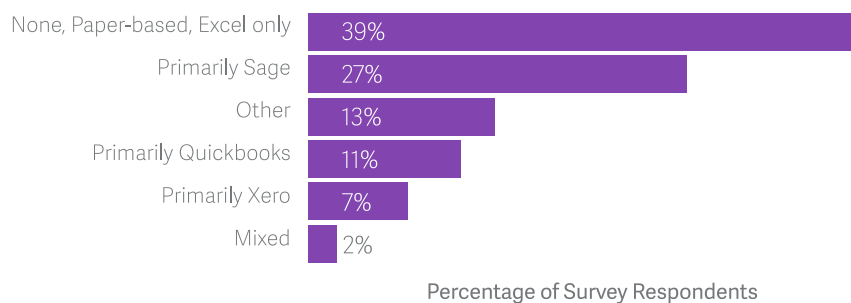
### **Practical: Software and Processes**

Dedicated accountancy software is a must for an organisation to report accurately and be accountable to stakeholders. However, survey results showed that there is a huge reliance on the exclusive use of Excel or paper-based accounting methods for 39% of respondents\*.

“A digital system will make it much quicker. Once it’s all set up it should run fairly easily, and the staff will be able to have correct monthly reports, which at the moment are much more difficult to obtain.”

- Interviewee, Consultant (and former auditor) of faith-based organisation working with those experiencing homelessness, £10k-£100k annual income

**Figure 12. Accounting Software used by Non-Profit Professionals, Charity Digital respondents only, N=164\***



\*There is an expected Sage bias in the data owing to collection methods. In this chart, only the surveys sent by Charity Digital to their customer base are included. This is more representative of the software used by UK organisations.

“The financial analysis side of things is the most important area for me at the moment. Our sector is changing, and it is becoming more important for us to be able to analyse our current spending and how to spend more efficiently.”

- Survey participant, Manager at a culture and recreation-focused organisation, £100k-500k annual income

Many find accountancy software too technically daunting and not user-friendly. Even competent accountancy software users expressed a desire to learn more about the products that they use in order to make sure they benefited from the full range of these products’ functionality.

More generally, Non-profits valued access to low-cost or free software they could use for their organisations and would like this to be more customised toward their needs, e.g. a Non-Profit Chart of Accounts and a fast-start model.

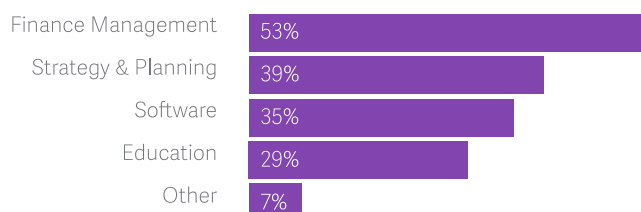
The primary customisation need is for reporting capabilities (e.g. non-profit reporting suite), including SORP reporting, restricted/project reporting and what-if reporting. This need was expressed prominently by both the focus group and through the interviews and is supported by the qualitative responses contained within the surveys.

Fund management – specifically the monitoring and separation of restricted funds – was also identified as a major problem area (and prerequisite to accurate reporting).

### **Educational: Training and Resources**

When survey respondents were asked which areas they wanted to improve upon, more than half mentioned an aspect of financial management (53%), followed by strategy and planning (39%). Better use and understanding of software were seen as a desirable improvement area for 35% of respondents. This need was reiterated by the focus group participants.

**Figure 13. Areas that Non-Profit Professionals would like to Improve, N=121**



Note: Many survey respondents wanted to improve in more than one area.

“Understanding how to grow to the next level, from a start-up – where we make decisions from a scarcity, survival mindset; where you know it is wise to outsource or invest, but you don’t have the money in the first place to do that – through to the stage of growth where you can sustainably financially make plans for growth.”

– Survey participant, CEO of a health organisation, £10k-100k annual income

#### **Supportive: Extended Support Service**

Many Non-profits have problems in finding the right help with their finance systems, with both time and capacity often stretched thin.

A dynamic support system that can address issues quickly is of real potential value. The level of support required often depends on the size, scope and lifespan of the organisation and / or the desire to improve practices around their finance function.

This could be realised as a dedicated point of contact who can quickly advise on an issue, or in the form of online guides and best practices. Further possibilities include hands-on support with software setup or other tasks, and one-to-one coaching for ongoing needs that become more complex over time as organisations move towards the achievement of higher financial goals.

#### **Social: Networking and Best Practices**

The concept of a support group of peers has worked well in other sectors and was discussed in detail in both interviews and the focus group. Participants want quick and easy access to knowledgeable peers to share best practices with, learn from, teach and build confidence with. They also would like to see an approved list of people and partners that they could consult or collaborate with. They see this as an effective and easy way to address short-term issues while also building ongoing relationships. In recognition of this need, [Sage City Forums for non-profits](#) are being launched early – and has been brought forward as part of the necessary response to COVID-19.

# Chapter Four:

## *Recommendations and Next Steps*

### Key Takeaways from Recommendations and Next Steps

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- The four avenues of Software, Education, Support and Social should be focused on to improve Organisational Financial Literacy
- Addressing the intersection of the Education and Support avenues through context-specific resources could have a major positive impact on Non-profits' financial capability and skills
- Unlocking the power of the non-profit community to support each other through initiatives such as Sage City could deliver a sustainable route to increasing Organisational Financial Literacy for many non-profits
- Increased access to technology will help ease capacity issues as well as improving Organisational Financial Literacy





## Addressing the Four Avenues

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We identified four primary areas as significant avenues for Non-profits to pursue in their goal of running their finances better:

1. Practical: Software and Processes
2. Educational: Training and Resources
3. Supportive: Extended Support Service
4. Social: Networking and Best Practices

In this chapter different development actions from each of the four avenues are explored. Our research highlighted that the most useful assistance for Non-profits often comes from a combination of Education and Support in the form of time-critical and context-specific interventions. Staff working in Non-profits will make the most progress when they are able to access support and resources, which help them address a specific problem or need at the point in time that it arises. These needs might answer key questions such as how to account for multi-year grants or produce restricted accounts.

Survey respondents also highlighted the outcomes they are seeking from interventions from the four avenues.

**Figure 14. Most desirable outcomes for survey respondents seeking to improve their Organisational Financial Literacy**



### **Practical: Software and Processes**

A highly significant intervention in this avenue would be to expand the provision of low-cost accounting software platforms to more Non-profits. The benefits of these platforms are very clear, but currently too many organisations are “locked out” from their use owing to the perceived high cost. This action is therefore a challenge to the software supplier community.

For those organisations that are able to access accounting software, the next challenge is to be able to quickly and easily deploy the software. This can be considerably assisted by the provision of “accelerators”, which will make the software quicker to implement. These accelerators could come from the software suppliers or other third parties.

From a process perspective, a best practice checklist that clearly outlines what is expected would resolve some of the confusion reported by respondents. By establishing what needs to be done and providing a protocol to follow, we could address one of the key factors contributing to a lack of transparency and accountability.

Other tools that would assist in this avenue include process flow charts and broader integration to other tools such as detailed budgeting and cash flow management tools.

### **Educational: Training and Resources**

In terms of education to help develop skills, it is clear that some Non-profits need to build up basic accounting expertise. Our research also showed that training related to more advanced skill levels – particularly in financial planning and analysis – was highly requested. Therefore, a multi-levelled approach to addressing this range of training needs is required.

The creation of case studies, how-to guides and videos, and other training materials specifically aimed at Non-profits would help to address the skills gap and could ease issues of capacity by making automation of time-consuming tasks simpler to understand.

Other materials made available would need to be clear, simple and easy-to-understand – as well as tailored towards a non-profit audience. These should include concise bite-sized webinars with a Q&A component. These would need to be live-streamed to allow for effective Q&A sessions to be held. This would allow workers responsible for the finance function to address specific knowledge gaps.

A lack of understanding of how to use software was both one of the key knowledge gaps raised in the survey and one of the main contributory factors towards the capacity issues reported. ‘Out-of-the-box’ video tutorials could help workers to get set up with finance management software. This would allow them to better understand their software from the start, and therefore produce more detailed and accurate reporting.

Finally, it will take some time and effort to encourage Non-profits to engage on the journey to improve their Organisational Financial Literacy. A series of short articles to motivate Non-profits to improve their financial capability as well as explaining the risks of not doing so, will have to drive this change across the sector.

**“I need some basic knowledge around bookkeeping and practical know-how in getting around the software and understanding the outcome I am trying to achieve.”**

- Focus group participant, Trustee at an educational organisation, £10k-100k annual income

### **Supportive: Extended Support Service**

Support is key to help non-profit staff when they become stuck, unable to use software or unsure of how to apply key accounting principles. A number of different interventions would help in this area.

The cost of providing a full-time help desk service on a national basis to answer all accounting and software queries would be prohibitive. However, a number of other interventions could significantly help here. These include the development of key online help resources, which address key common issues. A vetted list of helpers, including accountants, auditors and other experts, could be of real assistance and there is a role for other bodies like local CVS groups (Council for Voluntary Service) to provide guidance to local Non-profits on general finance matters.

More generally, skills-based volunteering offers a combination of education and support and could be a way of increasing the efficacy of Employer-Supported Volunteering (ESV) days. With organisations offering employees several days a year to volunteer for Non-profits, this time could be dedicated to mentoring non-profit workers in finance management software, as well as demonstrating effective finance management practices.

### **Social: Networking and Best Practice**

The first step toward connecting Non-profits and accountants, business partners and others wishing to support the sector is through the creation of a non-profit community. This offers the opportunity to provide a highly scalable service that can support many Non-profits for a low or zero price. However, experience suggests that building such a community and making it useful takes time and effort.

A new resource is available now at [Sage City](https://www.sagecity.com). This community for Non-profits is championed by Sage colleagues with expertise in product areas related to finance management, as well as operations and HR.

We believe that this Sage City Community for Non-profits could provide an excellent platform to foster relationships between peers and become a central hub for announcements about training opportunities and resources that become available to support the sector, thereby addressing all the avenues either directly or as a launching point to further support.





## Addressing Capacity, Transparency and Sustainability

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Capacity issues were primarily attributed to the lack of a dedicated finance function or person, time availability, knowledge gaps and under-utilisation of tools. In addressing Organisational Financial Literacy through the four avenues as outlined in this chapter, a number of these causes will also be addressed. We'd therefore expect the capacity issues in the sector to be eased by this. However, it needs to be recognised that for smaller Non-profits the lack of a dedicated finance function will always be an issue and that resource sharing/outsourcing might be a solution for such organisations.

We anticipate that the wake of COVID-19 will have a significant and long-lasting impact on the non-profit sector with the onus of transparency shifting even more onto non-profit staff. An increased demand on both public and governmental funds will lead to an increased demand for accountability as to how those funds are spent. This means that Non-profits will have even greater need to access tools and training to increase their Organisational Financial Literacy.

With many Non-profits finding themselves having to justify funding and expenditure, those that have undertaken training in finance management will be better able to provide the detailed documentation necessary for accountability. These organisations will be able to account for their expenditure and prove the value of campaigns and projects. In this way, they will be better prepared to answer the difficult questions that many Non-profits will find themselves facing in the months and years ahead. Ultimately such Non-profits will be more resilient and sustainable.

## Creating an Organisational Financial Literacy Hub

Our aim is to bring available resources and opportunities together into a “hub” to provide a more comprehensive path for Non-profits to achieve their organisational success. We believe that this will strengthen both the importance and efficiency of the finance function within organisations and free up capacity for further work in this and other areas.

The creation of this new resource combining training in all areas of non-profit finances and Organisational Financial Literacy would be extremely useful, not only for those who want a ‘one-stop shop’ in order to find specific information as and when required, but also for those who want a tailored and tiered training experience available to them in manageable and accessible portions.

As mentioned in more detail in the previous section, the launch of the [Sage City Community Forums for Non-Profits](#) is a first major step towards building this framework, allowing for communication and collaboration to aid the four avenues.

The graphic features the Sage Foundation logo at the top, followed by 'NPO Success' and the main title 'The tools to succeed' in large white text on a purple background. Below the title are four icons representing different support areas: a hand holding a coin for 'Product Discounts', a document with a speech bubble for 'Expert Training', a bar chart for 'Tools and Resources', and two hands holding a plant for 'Online Community'.

Other steps being undertaken by Sage to comprise the new framework include:

- Providing discounts to Sage Business Cloud products through the relaunch of their product programme, [NPO Success](#). The programme is growing rapidly, expanding in both scope to more markets with a bigger product portfolio, as well as in focus on an improved customer experience.
- Increased non-profit functionality to products offered in the product programme.
- The creation of case studies, short how-to guides and videos and training materials specifically aimed at Non-profits, available in multiple formats for greater accessibility and learning success.

Other innovation areas for further support include:

- The continued investment in and development of skills-based volunteering opportunities for Sage colleagues to help Non-profits use their software more effectively. Skills-based volunteering is increasingly becoming a bigger part of Sage, through Sage Foundation’s already successful initiative of [social change philanthropy](#) – where all 13,000+ Sage colleagues are encouraged to spend five paid days per year volunteering to help Nonprofits and their communities.
- The use of Sage expertise to innovate shortcuts, templates, micro-apps and other solutions to help Non-profits get tasks done simply and quickly.



## Future Steps

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It is apparent that one of the biggest obstacles to increasing Organisational Financial Literacy within the non-profit sector is the fact that many non-profit finance professionals feel siloed both within their own organisations and within the sector as a whole.

This is largely due to a lack of access to the proper software, training and instruction to move up the scale of Organisational Financial Literacy and increase confidence fulfilling the finance management functions of their roles.

An increase in networking, training and peer & social support can help to prevent this and help both organisations and team members to increase their Organisational Financial Literacy.

As outlined, Sage are committing to a range of actions including improving access to their software, providing an Organisational Financial Literacy hub, which will be populated with useful training and support guides and extending the role of Sage City. However, no one project, or initiative will completely turn around the state of Organisational Financial Literacy within the non-profit sector. This is a sector which thrives on collaboration, driven by a common aim of creating a better world. We encourage other organisations – whether they are other Non-profits, commercial organisations or trade bodies to get more involved in improving the skills and capacity of the sector.

This will require input from organisations and individuals with a high degree of Organisational Financial Literacy both inside and outside the non-profit sector. Skilled volunteers will be needed to help provide education and support, both as one-off contributions such as appearing on webinars and compiling best practice checklists, and in the form of more long-term support. This would include skills-based volunteering, mentorship and community or peer support.





## Continuing the Research

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This study identified a number of possible next steps to expand the body of research about Organisational Financial Literacy.

While few programme participants so far have specifically requested better cash management and forecasting, we know that these are critical areas for many Non-profits. Furthermore, with the additional financial stresses following the COVID-19 pandemic, we expect cash management to be increasingly critical. These topics could be explored further, as awareness of and inability to articulate the issue may be compounding factors.

There are a number of further questions around the differences between the non-profit sector and the business sector that could be addressed, especially regarding capacity, capability, turnover and the manner in which the finance function is typically addressed in organisations as compared to businesses.

More could be done to determine any differences across geography in the sector, as many of the respondents were from the densely populated areas in the South. It is hypothesised that there may be a greater skills gap and availability for staff (both paid and unpaid) and trustees in less affluent areas.

Following on a research finding from GOV.UK stating that the lack of financial controls was a primary factor contributing to [insider fraud within charities](#), an exploration of the relationship between fraud and Organisational Financial Literacy would be prudent and beneficial to the sector.

Lastly, a more detailed exploration of the relationship between non-profit collapse and Organisational Financial Literacy – especially when this occurs while the organisation is still in a period of funding – could provide good footing for effective intervention measures to prevent organisational failure. This could be followed by the framework to help put the organisation back onto the path of success.

# Conclusion

In this paper we defined Organisational Financial Literacy as having the tools, capacity and expertise to be able to manage organisational finances. We believe Organisational Financial Literacy is important for non-profits as it enables them to understand and manage their finances better, make more informed financial decisions, carry out meaningful financial planning, forecasting and analysis and demonstrate greater transparency. These factors will help non-profits to be more resilient and sustainable both as a result of being better managed and being more attractive to grant givers and donors.



The current level of Organisational Financial Literacy in UK Non-profits was researched through a survey of 271 organisations, a focus group and one-to-one interviews. The research showed that capacity was the biggest obstacle to achieving Organisational Financial Literacy across all skills levels, roles and organisation sizes.

The interventions that can help non-profits to increase their Organisational Financial Literacy were researched and four avenues were identified:

1. Practical: Software and Processes
2. Educational: Training and Resources
3. Supportive: Extended Support Service
4. Social: Networking and Best Practices



There is much work to do to action the four avenues and help increase Organisational Financial Literacy in UK non-profits. Sage is committing to providing its software at preferential terms, using Sage City to facilitate peer support and to produce a range of different resources to educate and support non-profits. However, there is too much to do for any one organisation. We are therefore encouraging other organisations to get involved. This could include other software suppliers offering their solutions to non-profits at heavily discounted prices and trade bodies and commercial organisations offering to provide more support and education on a local basis.

Anyone wanting to discuss further how they might help is encouraged to contact either Sage Foundation at [NPOSuccess@Sage.com](mailto:NPOSuccess@Sage.com) or Charity Digital at [OFL@charitydigital.org.uk](mailto:OFL@charitydigital.org.uk)



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