

New
Philanthropy
Capital

The little blue book

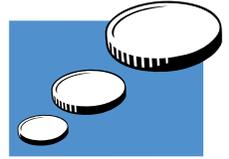
**NPC's guide to analysing charities,
for charities and funders**

February 2010

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Foreword

Doing analysis helps us to understand the world better. Applied to charities, analysis helps us to understand what works and what does not, and how we can improve more people's lives. That is what this guide is about.

An interest in analysis is unlikely to be the starting point for becoming involved with a charity. There are many reasons why people work for charities, donate money or become trustees. These may relate to their background or life experience, and may be deeply personal. But whatever their experience, we believe that analysis can help them to make better decisions.

At New Philanthropy Capital, we have been looking at charities since 2001. During this time, we have developed our own approach to analysis, which we present here. We encourage you to use it.

Of course, there is more than one way of analysing charities, but we think that our approach works well and stands up to scrutiny. What makes our approach different is its focus on understanding the context in which charities work. This is necessary to make a judgement about whether charities are doing the right things and whether they are making a difference.

Over the last nine years, we have learned a lot from other organisations and individuals, many of whom have been involved with this subject for much longer than us. We are indebted to the charities that have opened their doors to us, and to the grant-makers who have generously shared their experience and expertise.

This booklet is a concise and practical guide to analysing charities. Whether you are a funder, a charity or an interested observer, we hope that you find it useful.

The NPC Research Team, February 2010

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Introduction

This booklet describes how New Philanthropy Capital (NPC) analyses charities. It is a guide for anyone interested in helping charities to become better.

It can help funders to identify charities' strengths and weaknesses, and make decisions about how to allocate resources. It can help charities to assess their own performance and make improvements to their organisation.

NPC's approach is designed for charities that work in all areas of human welfare. It has been developed in the UK, but can be adapted for use in other countries.

This booklet has six sections:

- Section 1 describes why analysis is important and why NPC has developed this approach.
- Section 2 describes what we analyse and what information and resources are required.
- Section 3 presents our framework for analysing charities. The framework is divided into six elements: activities, results, leadership, people and resources, finances, and ambition.
- Section 4 discusses how our approach applies to different types of charity, including large complex organisations, campaigning charities, and charities that work in developing countries.
- Section 5 describes how our framework can be used to make judgements about how effective charities are, and presents NPC's charity grading grid.
- Section 6 lists sources of further information and describes how NPC can help organisations that want to do analysis.

Why we analyse

1

In this section, we describe why analysis is important to charities and why we developed our approach.

Analysis is important

Analysis can help charities and funders to become better at what they do. It helps us identify strengths and weaknesses, identify what works and what does not, and learn how to improve.

It is generally accepted that analysis helps to improve the performance of organisations. Over recent decades, schools, hospitals, local authorities and public companies have grown used to being analysed, both from within and by external experts. Like these organisations, charities can also benefit from greater scrutiny of their work

Funders and charities do not invest enough in analysis

All charities and funders do some sort of analysis. This is implicit in the decisions that charities make about what activities to do, and the decisions that funders make about which charities to support.

But the place that rigorous analysis could have in helping the charitable sector to improve is underplayed. Many charities and funders invest little in analysis, and do not understand how to approach it.

How we developed our approach to charity analysis

When NPC was established in 2001, our founders were concerned by the lack of information available on charities. Today we believe that more analysis—both by independent experts and by charities and funders—can help charities to improve.

The framework presented in this guide is a way of rigorously assessing the effectiveness of charities. Developed over eight years, our approach borrows from different analytical disciplines, including grant-making, commercial investment analysis, management consultancy, academic approaches to data management, and social sciences. It is also firmly grounded in a thorough knowledge of charities and the context in which they work.

Where to start

2

This section describes what we analyse and what information and resources are required.

What we analyse

The purpose of NPC's charity analysis is to provide greater insight into what a charity does and to identify ways in which it might be improved.

Our approach assesses the effectiveness of a charity's work. By 'effectiveness', we mean charities' ability to improve people's lives and to create lasting change for the better. To be effective, charities need to: focus on activities that achieve a real difference; use evidence of results to improve performance; make good use of resources; and be ambitious to solve problems. All of this requires high-quality leadership and staff, and good financial management.

Our analysis framework looks at six aspects of a charity: activities, results, leadership, people and resources, finances, and ambition.

What makes NPC's approach different

NPC's approach is rooted in an understanding of the context in which charities work. This includes the size and nature of the need, how the public and private sectors are tackling the problem, and what charities are doing to help.

More often than not, charities exist to fulfil a purpose that extends beyond the limits of their own organisation—for example, finding a cure for cancer or reducing the number of homeless people. In achieving these goals, they must work alongside other organisations in their industry. Understanding the context in which charities work helps us to make a judgement about whether they are doing the right things, whether they are making a difference, and how they contribute more broadly to creating the conditions to help other organisations to fulfil their charitable purpose.

What information is needed

Analysing a charity requires information from a variety of sources. NPC recommends that a full analysis should include:

- **researching the issue** the charity is trying to address, including finding out what government is doing and which other organisations are working in the area (see Box 1);
- **looking at publicly available information**, such as the annual report and accounts filed with the Charity Commission, and any other information that the charity might publish on its website, including a vision statement, strategy documents, and evaluation reports;
- **meeting with key people** in the charity's offices, including the chief executive, management team and chair of trustees;
- **requesting information that is not publicly available**, such as management accounts, more detailed strategy and evaluation documents, staff surveys and a risk register;
- **visiting a project**, speaking to front-line staff, volunteers and beneficiaries of the charity's services; and
- **talking to other individuals and organisations** that have worked with the charity, including funders, commissioners and other charities.

Box 1: NPC research reports

A full analysis of a charity requires knowledge of the context in which it works. NPC produces research reports that look in depth at areas of social welfare in the UK, such as disabled children, domestic violence, homelessness, and refugees and asylum seekers.

Our research reports identify the main issues that organisations face when addressing a social problem, and the needs of the people affected. We do this through desk-based research using books, journals, the internet and policy documents, plus interviews with experts, including academics, policy-makers and funders. All this information is brought together and assessed by a team of NPC analysts.

Our reports highlight the distinctive role that the charitable sector plays, the role and responsibility of government, and what gaps exist in services. They are a useful resource for charities and funders interested in the area.

Over 50 reports can be downloaded free of charge from www.philanthropycapital.org/ publications.

Using judgement

Assessing effectiveness is a complex business. Charities with very different goals cannot be directly compared with each other—unlike commercial companies that share a common financial goal. Judgement is therefore a vital part of analysis. There are no easy answers and it cannot be done by ticking boxes or through simple calculations.

In particular, it is necessary to vary expectations according to the size and maturity of the organisation. For example, we would expect a well-established charity with substantial financial resources to have better processes for measuring results than a relatively new charity.

Section 4 describes how to vary the analysis to suit different types of charities.

What resources are required

Although anyone can use this guide, a full analysis may require professional judgement and experience. It is also time-consuming. An experienced analyst can thoroughly analyse a charity in five days, but for a less experienced analyst, it takes longer. For large, complex charities, it can take up to 20 days to get a sound understanding of its activities.

Organisations wishing to undertake an analysis have a number of options. They can conduct it themselves if they have the skills, or they can pay for an independent expert, such as NPC, to help them. Some have access to free external resources (such as pro bono consultants), but these may not have the necessary knowledge of the field in which the charity works to provide a comprehensive assessment.

Section 6 lists further sources of information on NPC's approach to analysing charities.

NPC's charity analysis framework

3

NPC's analysis framework is divided into six parts: activities, results, leadership, people and resources, finances, and ambition. As Figure 1 shows, each part is made up of four criteria that address different questions.

Figure 1: NPC's charity analysis framework

Area for analysis	Assessment criteria
Activities	<ul style="list-style-type: none"> • Focus on greatest needs • Range of activities • Ability to adapt and innovate • Links between activities
Results	<ul style="list-style-type: none"> • Results culture • Evidence of positive results • Quality of evidence • Sharing results
Leadership	<ul style="list-style-type: none"> • Management team • Governance • Vision and strategy • Priorities
People and resources	<ul style="list-style-type: none"> • Staff • Use of volunteers • Other resources (such as IT, property and brand) • External leverage
Finances	<ul style="list-style-type: none"> • Financial security • Quality of financial management • Efficiency • Unit costs
Ambition	<ul style="list-style-type: none"> • Potential to grow or replicate • Potential to improve results • Potential to solve problems more widely • Willingness to change

Risk analysis

Each part of the framework contains an analysis of risks. This considers the challenges and threats to the organisation achieving its goals. When analysing risks, it is important to look at internal factors, related to existing resources, and external influences, related to how the organisation is able to respond to events out of its control.

The main risks to charities include:

- financial risk (such as a sudden decline in income);
- management risk (such as relying too heavily on a single person);
- risks to activities (such as projects becoming less relevant to the target group); and
- reputational risk (such as a scandal that affects the perception of the charity).

These risks should be outlined in the charity's risk register.

The six parts of the framework are explained in more detail over the following pages, and highlight some of the most important questions to consider when analysing risks.



Photograph: Edinburgh Gyemians

Activities

- Is the charity focusing its work in the right areas?
- Do the activities make sense together and link to the organisation's goals?
- Is the charity able to adapt and innovate?
- How do the activities benefit from being part of the charity, rather than existing on their own?

Activities means what the organisation does and how it goes about doing it. A charity's activities are its way of achieving its objectives.

We assess effectiveness of activities against four criteria: focus on greatest needs, range of activities, ability to adapt and innovate, and links between activities.

1. Focus on greatest needs

An effective organisation focuses its work where it can make the greatest difference to people's lives. To do this successfully, it needs a thorough understanding of the problem it is trying to tackle.

Judging whether a charity is doing the right things requires an understanding of the context in which it works, including the role of government and other organisations. It does not make sense for charities to work in areas where the state has a clear responsibility or where there is another organisation doing it well.

NPC's research can help analysts see how charitable activities fit into the wider picture of services. For example, our research into child abuse concluded that the most important role for charities was in prevention of and recovery from abuse, rather than in policing or intervening in child protection cases, which are the responsibility of government.

2. Range of activities

A charity's activities should be clearly linked to its mission and objectives. If an organisation does more than one thing, there should be a clear justification for the range of activities, and there should be no gaps in the organisation's work that prevent it from achieving its aims.

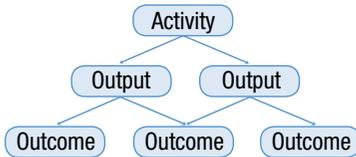
One approach to determine whether a range of activities makes sense is to begin with what the organisation wants to achieve, and use this to identify the outputs required and then the activities required. This concept of 'backwards mapping' is illustrated in Figure 2. It is more complex for charities engaged in many different types of activity.

The range of activities is important because it is linked to how successful a charity is likely to be. For example, organisations working with homeless people, such as Edinburgh Cyrenians, have come to recognise that simply providing a roof over someone's head does not solve his or her problems. A homeless person often needs additional help, such as education, confidence-building activities, and treatment for substance misuse.

Figure 2: Backwards mapping to look at a charity's range of activities

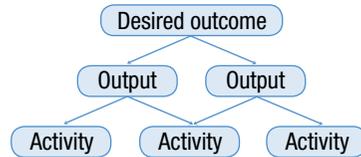
Standard approach:

Begins with stated activities and assesses the outcomes of each



Backwards mapping:

Begins with desired outcome and assesses whether the scope of activities is appropriate



3. Ability to adapt and innovate

Being able to adapt is important if charities are to remain effective as society changes. Good charities have a track record of innovation and are flexible enough to respond to change. However, they must also resist the urge to create new projects for their own sake.

To judge how good a charity is at adapting, analysts can look at how it responds to new information (such as changing needs or research), and its previous track record of innovation. Can the charity demonstrate that services have been adapted or created in response to new information? Does it adequately take into account the views of beneficiaries (see Box 2)? Has it been willing to close down activities that are out of date?

One good example of innovation comes from Hibiscus, a London-based charity that provides emotional support to foreign national women prisoners. The charity saw that many women were convicted for drug trafficking, so it set up education campaigns in Jamaica, Nigeria and Ghana, where most of the women were coming from. Using cartoons, posters and a range of other media, Hibiscus alerted vulnerable women to the consequences of trafficking drugs. This has contributed to a dramatic fall in arrests in the UK.

4. Links between activities

Successful charities exploit the links between their different activities. For example, a counselling service might provide statistics or case studies that can be used in campaigning activities.

Box 2: Involving charities' beneficiaries in shaping activities

The needs of beneficiaries should define what activities a charity does. Without the vulnerable or disadvantaged people they exist to help, charities have no purpose.

Seeking the feedback of beneficiaries and, where appropriate, involving them in decision-making, can help charities to provide services that are relevant and up to date. It allows them to detect activities that do not work and identify changes in need.

Good charities have a clear line of communication between beneficiaries and the people who define the activities. There must be an understanding of needs on the ground across all levels of the organisation.

There are a number of ways in which charities can use beneficiaries to shape services. For example:

- A charity can have a user of its services on the board of trustees or advisory group.
- A charity can have a network of beneficiaries who can be regularly consulted about services. For example, the Association for Children's Palliative Care has a network of family members that it regularly holds events for and to which it sends surveys.
- A charity can seek feedback directly from users of services as part of its internal processes for monitoring and evaluation.
- A charity can employ staff with direct personal experience. For example, Community Links, a community organisation in east London, employs local people, and around one third of its staff have used the charity's services.

To judge this area, we need to look at the actual and potential links between activities. What links already exist, and can the charity articulate this clearly? Are there links between services that the charity is not exploiting? This also helps to assess whether the activities are more effective on their own or as part of a large organisation.

One charity that has good links between its services is Southall Black Sisters, a charity in west London that helps women who have been physically abused by their partners. The charity uses information from its casework to lobby government, and the strength of its evidence has helped to change the law on forced marriage.

Risk analysis

When analysing a charity's activities, analysts should consider the challenges and threats to the organisation achieving its goals. Important questions to consider include:

- How will the charity respond if the demand for its services changes?
- How does it ensure that its services remain relevant in the context of social and technological change?
- Can the charity retain the right people to ensure its activities can continue?
- Are processes in place to prevent events that might damage the reputation of the charity?

Example of analysis: Barnardo's Sexual Exploitation Services

Innovation in a large charity

Barnardo's is one of the largest UK children's charities, and an expert on tackling the sexual exploitation of children and young people.

Large charities can struggle to innovate and adapt to change. Barnardo's is a good example of a large charity that succeeds in delivering innovative services in response to challenging problems, such as the sexual exploitation of young people—a subject that historically has received very little attention. Barnardo's set up its first service to help sexually exploited young people in 1995, and now has 19 similar projects across the country. Each year it helps over 2,000 children and young people.

Barnardo's uses voluntary donations to set up projects, then works to prove both the need for and the results of its work, in order to attract local authority funding. Evaluations of its services between 2003 and 2005 showed that three quarters of children who were being exploited at the start of a programme showed a reduced level of exploitation afterwards.

Barnardo's works with some of the most vulnerable children in the UK. In developing its services, Barnardo's uses its knowledge of sexual exploitation to identify other areas of need—for example, it recently moved into preventing child trafficking. Barnardo's is a key campaigner on the damaging effects of sexual exploitation, using research from its projects to raise the issue with local authorities and central government.

Proving adaptability and appetite for innovation is a challenge for large charities. The work that Barnardo's does to prevent sexual exploitation demonstrates that a charity can be big, but still nimble.

For more information, see www.barnardos.org.uk.



Photograph: Homeless Link

Results

- Is the charity committed to measuring results and learning from them?
- Does the charity have evidence of positive results?
- Is the charity's results evidence high quality and reliable?
- Does the charity have an impact on other organisations or public attitudes in its area of work?

Results mean the changes the organisation makes to people’s lives and the attitude it has to learning from its experience.

We assess effectiveness of results against four criteria: results culture, evidence of positive results, quality of evidence, and sharing results.

1. Results culture

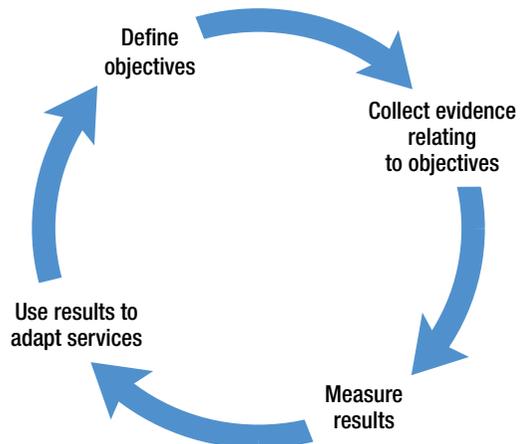
By ‘culture’ we mean the charity’s attitude towards collecting and using data on results, and the role this plays in its day-to-day activities.

The best charities are driven by what they achieve for the people they work with. They show a good understanding of their outcomes and a willingness to learn from the data they collect—be it good or bad. Although convincing evidence is often difficult to collect, a commitment to measuring and using results data is a good starting point. Figure 3 shows how collecting evidence can be part of a cycle of improvement.

To judge a charity’s results culture, analysts can review publications, such as strategy documents and plans, and speak to staff and management. Is results data used to improve services, or does it exist just to satisfy funders? Does the charity share its results to inform other organisations about what works?

Thames Reach, an organisation working with homeless people in London, carefully evaluates all of its new programmes. The first-year evaluation of one of its training and employment schemes found that the intensity of the training was damaging for some of the participants: it led a number to relapse into drug use or mental health problems. In response to the evaluation, Thames Reach changed its selection process. Now, it more rigorously assesses participants at the start, and provides better support to those on the course.

Figure 3: How collecting results evidence improves services



2. Evidence of positive results

Without evidence of results, we cannot be sure that a charity is making any difference at all.

NPC looks for two things in a charity's results evidence: evidence of positive results, and improvement in results over time.

Assessing impact is not easy, even in established organisations. In many cases, it may not be possible to capture results directly. Tangible results, such as improvements in exam grades, are often easier to capture than intangible results, such as improvements in confidence. But even this is not impossible, as Box 3 shows. Where possible, analysts should seek comparable data from other organisations doing similar work. However, given that few charities measure their results, this rarely happens.

The Place2Be provides counselling services to children in primary schools. It measures the results of its work across 17 locations, using a robust measurement tool that records the perceptions of children, parents and teachers. Using this tool, it can demonstrate improvements over time.

3. Quality of evidence

Quality of evidence refers to the suitability of the method used to capture results, and how well this is put into practice. If evidence is biased or the method is inappropriate, then it cannot be used by charities or funders to make good decisions.

Box 3: Measuring the intangible

If a charity only captures outcomes related to the observable, tangible features of its work (such as the number of people helped into employment or the improvement in a child's reading score), the charity risks missing some of its impact.

Measuring 'intangible' results is challenging, but can be done. One type of impact that a charity can have is improving subjective well-being—what people think and feel about their own lives and future. This translates into how much they enjoy life and how they are likely to behave. Charities can find it difficult to capture this information, and therefore to demonstrate their full impact.

NPC has developed a questionnaire to help charities measure well-being for 11 to 16 year olds. It measures seven aspects of well-being: self-esteem, resilience, emotional health, quality of peer relationships, quality of family relationships, satisfaction with school, and satisfaction with the community. We plan to develop similar tools for other age groups.

For more information, see www.philanthropycapital.org/publications/improving_the_sector/well-being.

Charities may be able to measure outcomes directly (for example, the number of people helped into employment), measure indirect indicators (for example, the number of people who say that they are more confident in applying for jobs), or use a logical justification (for example, having a coherent argument of how its activities help people find employment).

Direct evidence

There are two main approaches to collecting direct evidence of outcomes:

- **Systematic evidence** collection is where the organisation collects information about its impact on a regular basis, usually in a database. Tracking outcomes in this way gives the charity immediate understanding of its impact, which it can use to make management decisions or report to funders.
- **Evaluations** are detailed pieces of research often conducted by an external researcher. They usually answer specific questions and draw on a wide range of evidence. Evaluations can be costly and so are used sparingly, often at critical stages in the charity's development.

Indirect indicators

There are two main indirect indicators:

- **User feedback** is where the organisation seeks the views of the people it helps, often through a survey. Positive feedback may indicate high-quality services. However, results should be treated with caution, as they may simply indicate a pleasant experience, rather than actual change.
- **Demand** for a service—how many people want to use it—indicates its popularity and may give some indication of quality. However, it may simply indicate a high need or scarcity of other services.

Logical justification

There are three main elements of a logical justification:

- **A clear logical model** describes why the organisation is doing what it does, how its activities fit together, and how this will lead to long-term change. This is also referred to as a 'theory of change'.
- **Evidence from previous experience** is direct evidence or indirect indicators from related activities. For example, a charity might have a service that is proven to work with children, which says something about whether it might work with adults.

- **Previously published research** is evidence of the same or similar activity produced by another organisation or in another context, such as another country.

Whether a particular type of evidence is appropriate to a charity depends on its maturity and size. For example, it is not possible for a new organisation to prove direct outcomes. Instead, analysts should look for a strong logical justification, evidence from similar projects, and a plan for how the charity will measure its outcomes. In contrast, analysts should expect that large, established charities prove direct outcomes.

The appropriate evidence to collect also depends on what the organisation is using the evidence for. A charity seeking to convince policy-makers to adopt a particular approach should have more sophisticated evaluations than a charity that has a proven model and is seeking to ensure that the quality of its services remain consistent. One charity that uses its results evidence well is the Every Child a Chance Trust, which undertook a rigorous three-year evaluation of the impact of Reading Recovery, its programme to teach children who are struggling to read. This helped it to secure a commitment from the government to roll out the approach in schools.

Analysts should look at whether evidence is collected in a rigorous way, therefore leading to reliable results. Box 4 looks at how to determine this.

4. Sharing results

Sharing results can dramatically increase the impact a charity has. Good charities use their knowledge to help others to learn and improve.

To judge the influence a charity is having, analysts should look for how it uses its experience, resources and coverage to increase knowledge across the field in which it operates. This may be by disseminating original research to others, or by education and training practitioners.

Co-ordinated Action Against Domestic Abuse (CAADA), a charity that works to prevent violence in the home, has been working with other charities across the country to develop a method to evaluate advocacy services, such as representing women in court or helping rehouse them. CAADA intends to help all charities working in the area to improve services and attract funding.

Analysts should also look at whether charities are exerting influence on government or on public attitudes, leading to better results. For example, The Children's Society supports the Standing Committee for Youth Justice, a consortium of charities and professional bodies lobbying to improve the youth justice system, by freely giving the time of its parliamentary lobbyist.

Box 4: Assessing a charity's measurement system

Whatever approach a charity takes to results, analysts should consider the following questions about its measurement system:

- Does it answer questions that will help the charity to improve its activities? For example, what parts of the service work most successfully, and do some users benefit more than others?
- Is data collected objectively? For example, are results collected from everyone using the service or from a random sample of users?
- Does it combine quantitative and qualitative data? Qualitative data (such as feedback from beneficiaries) provides information about what works. Quantitative data (such as statistics on health improvements among beneficiaries) describes the amount of improvement that has taken place.
- Is any quantitative data statistically robust? For example, is the sample size big enough or the number of responses sufficient?
- Has there been an attempt to consider what happens to people who do not access the charity's services? Without addressing this question, charities have no means of working out how much they have contributed to any improvements, as other factors are always at play.
- Is it comparable to what other organisations are measuring? Where it exists, a standard measure can help organisations judge themselves, and can help when beneficiaries move between organisations.

Risk analysis

When analysing a charity's results, analysts should consider the challenges and threats to the organisation achieving its goals. Important questions to consider include:

- Does the charity have robust processes in place to maintain and improve its results?
- Can the charity spot if something is going wrong?
- Are there external events that will affect the organisation's ability to achieve results?
- How likely is it that indirect indicators or a logical justification do not translate into positive results?

Example of analysis: The Brandon Centre

Learning from results

The Brandon Centre in north London provides free, confidential support for 12 to 25 year olds who are experiencing mental and sexual health problems.

The charity has a sophisticated evaluation system, but what makes it particularly outstanding is its rigorous analysis of the data it collects, which it uses to inform the development of its services.

The Brandon Centre evaluates the impact of its work using a well-respected clinical measurement system to assess changes in mental health at regular intervals. From this, it knows that 47% of young people receiving psychotherapy experience a reliable improvement in their mental health. It also found that almost half of the young people receiving counselling had violent and offending behaviour. These young people were least likely to benefit from therapy, and many dropped out.

Using this information, the Brandon Centre piloted a technique known as multi-systemic therapy (MST), and evaluated it using a randomised controlled trial—the gold standard of clinical trials. It has now completed the fifth year of the programme, and preliminary analysis suggests that MST significantly reduces criminal and aggressive behaviour.

The Brandon Centre does not just keep its findings to itself; it shares them widely so that other organisations can benefit. The randomised controlled trial not only enables the Brandon Centre to understand how much MST benefits the young people it helps, but also helps to further international understanding of how best to tackle youth offending. The charity's MST trial is now being used by the government to set up MST at other sites in England.

Collecting data on results has little value if charities do not analyse these results and adapt their work in response. For a small charity, with an annual income of less than £1m, the Brandon Centre demonstrates how evaluation can not only lead to improvements in an individual organisation, but also influence policy and practice at a national and even international level.

For more information, see www.brandon-centre.org.uk.



Photograph: Thames Reach

Leadership

- Is the charity well managed by the chief executive and senior team?
- Does the organisation have good governance, and does the board ensure that the organisation is heading in the right direction?
- Are the vision and strategy clear?
- Does the organisation have a clear and convincing case for setting its priorities?

Leadership means how the organisation is managed and governed, including whether it has a clear purpose and strategy for achieving its goals.

We assess effectiveness of leadership against four criteria: management team, governance, vision and strategy, and priorities.

Box 5: The chief executive

The chief executive is invariably the most important person in an organisation. No credible analysis can take place without meeting him or her. Chief executives are responsible for day-to-day management and are the link between the charity's operations and governance. In good and bad times, their attitudes and leadership style are key parts of what makes a charity what it is.

Some of the most important points to consider here include:

- **The relationship with the management team:** Is the chief executive surrounded by people with the appropriate skills? How does he or she get on with the deputy?
- **Governance:** What is the relationship between the chief executive and chair of trustees? What is the chief executive's attitude towards the board? Is there a plan for succession?
- **Strategic vision:** Can the chief executive describe a coherent and convincing case for the charity? Do the vision and ambition make sense?
- **Day-to-day management:** How engaged is the chief executive with day-to-day activities? Does he or she understand the concerns of front-line staff and users and regularly visit projects? Does the chief executive have the respect of the staff?
- **Involvement with core functions:** Does the chief executive have a clear understanding of the finances? The chief executive is often the most important fundraiser in any organisation—does he or she maintain key relationships with funders?
- **External profile:** Is the chief executive well known outside the organisation? Is he or she an effective advocate for the charity and the issue that it represents?

1. Management team

The management team, led by the chief executive (see Box 5), runs the organisation, implements the strategy and sets the overall tone. Having a good leader and senior team, with a range of skills, is crucial to the success of any organisation.

Assessing the management team involves reviewing the experience and track record of key individuals to identify strengths and weaknesses. In particular, management should have a clear understanding of the financial situation of the charity, and should provide a consistent message to staff about the direction of the organisation. When meeting with staff, analysts can gauge the trust and respect they have for the management team.

Box 6: Transparency

Transparency is about charities being open and honest about the most important aspects of their organisation and work.

A transparent charity clearly and publicly explains why it exists and what its strategy is for helping beneficiaries. In its annual report and on its website, it talks about its work, achievements, and any setbacks or challenges. It also provides a comprehensive picture of its management, governance and finances.

Transparency is not about disclosing everything. For some aspects of a charity, transparency is not appropriate or reveals so little about the quality of the organisation as to be irrelevant. For example, it is not necessary to reveal the detailed expenses of every member of senior staff.

The management team needs to be transparent and to communicate effectively with people outside the organisation (see Box 6). Analysts can assess this by looking at publicly available information, such as annual reports and websites, and contacting other charities and beneficiaries that know the service. When looking at management, we also need to look at risks stemming from over-reliance on any one individual, and whether the organisation has plans for succession.

2. Governance

Good governance is central to charity effectiveness. Trustees of charities have the critical role of steering the direction of the organisation, supporting the management team to deliver on agreed aims, and overseeing the financial and practical aspects of running the organisation. Appointing the chief executive is probably the most important job a board does.

Assessing the role and involvement of the board is very difficult from an external perspective. Talking with the senior team and chair should give some sense of how trustees and management work together, but it is also important to establish whether some key features are in place, including:

- evidence that board members understand their role and responsibility—for example, through a good induction and a job description;
- a strong chair who sets clear terms on the frequency of meetings, appropriate committees, content and timing of board papers;
- a diverse board with a range of required skills;
- good communication between the board and the rest of the organisation;
- mechanisms for board evaluation and accountability; and
- a board that is driven by results.

A full discussion of trusteeship, its importance, and getting the most out of boards can be found in NPC’s report, *Board matters*.

3. Vision and strategy

A key responsibility of the leadership team—including the management and trustees—is to set the vision and strategy. Good organisations have clearly defined aims and a convincing plan for how they will be achieved.

A robust strategy includes measurable milestones, an appreciation of the unique role of the charity, and an understanding of the actions required to achieve long-term aims. This relies on listening to beneficiaries and often means collaborating with others working in related areas.

The strategy should set out why the organisation does what it does, and how its activities make an impact on the problem it seeks to address. This aspect of an organisation’s strategy—sometimes referred to as a ‘theory of change’—should be based on evidence and clear logic. This might be straightforward for a small charity with a single activity, but it can be complex for charities with multiple activities and those aiming for long-term cultural change.

The vision and strategy can be assessed through discussion with management and by studying strategy documents. There should be evidence that the views and experiences of beneficiaries inform any plans. We can test the strategy against a SWOT analysis (looking at strengths, weaknesses, opportunities and threats) to ensure that it is sensible and feasible (see Figure 4).

Figure 4: A SWOT analysis for Chance UK, a charity that provides mentoring for disadvantaged young people

Strengths	Weaknesses
Clear, proven approach for helping young people: a model mentoring scheme Results indicate significant impact on young people Excellent use of volunteers	Ongoing measurement approach and communication of results could be improved Relies heavily on the energy and enthusiasm of the chief executive
Opportunities	Threats
Growing attention on mentoring programmes from government Possibility of extending model to other parts of the UK, and interest from independent funders	Local authority budget cuts Inability to generate enough core support to keep the central operation running

4. Priorities

As most charities have limited resources, it is important that they are used to maximum effect. Organisations have choices about what to spend money on. This might include front-line services, campaigning, and influencing government policy. Analysts should look for a clear explanation of why the organisation invests more resources in some activities than others.

The rationale for a charity's priorities can be found in a strategic plan and through conversations with senior managers. Making good decisions about priorities requires the organisation to be in tune with its external environment and to understand the impact it is having. A good example is Rainbow Trust Children's Charity, which supports the families of children who have a life-limiting condition. Rainbow took the difficult decision to close its two family respite houses, and with the same resources, it was able to hire more family support workers to help families in their own homes. By reprioritising its resources, Rainbow was able to reach more families and have a greater impact, even though, in the short term, the decision was unpopular.

Risk analysis

When analysing a charity's leadership, analysts should consider the challenges and threats to the organisation achieving its goals. Important questions to consider include:

- Are there sufficient controls on the management or board to identify underperformance and take steps to correct it?
- Is the charity too reliant on a single individual?
- Is there a plan for succession, at management and board level?
- Is there potential for conflict between key members of the management team, or between the board and the management?
- Is the strategic plan realistic, and are there significant risks associated with achieving the plan?

Example of analysis: Beat

A small charity rethinking its strategy and vision

Beat is the leading national charity for people affected by eating disorders. It provides support to individuals and families through a helpline and self-help groups, it campaigns and provides training to improve services, and it challenges public attitudes. Millions of people visit Beat's website each year, and nearly 50,000 call the helpline. By linking sufferers to treatment and inspiring them to seek help, the charity saves lives.

A decade ago, Beat (then called the Eating Disorders Association) was not so successful. Its board and management mainly consisted of former sufferers and lacked the right mix of skills. Decision-making was cumbersome and managerial accountability was vague. Its approach to campaigning and government was seen by many as unconstructively oppositional. Its website was inaccessible to young people and its name, the 'Eating Disorders Association' was seen as medical, stuffy and dull.

All this began to change when a new chief executive was appointed in 2002. The chief executive's aims were to professionalise the charity and orient it more towards young people. With help from an engaged grant-maker, the chief executive was given the resources and support to develop a new strategy and vision, restructure the board, and rebrand. The restructured board boasts a good mix of skills and enterprising attitudes, and a greater ability to detach strategic decisions from emotion. Following this, the chief executive also restructured the management team. The charity changed its name to Beat and developed a new website.

The new strategy is helping the charity to achieve more. Today, Beat is highly regarded and seen as a credible expert by government, the media, academics and professionals. By raising awareness and changing the ways eating disorders are portrayed, it is now tackling the root causes that are key to addressing and preventing eating disorders. With a more accessible name and website, 25% more young people are now contacting the charity.

Good management, support from the board and the right resources can change a charity and enable it to increase its impact.

For more information, see www.b-eat.co.uk.



Photograph: beat

People and resources

- Are the charity's staff high quality, motivated, and in appropriate roles?
- Are volunteers used and managed well?
- Does the charity make the best use of its other resources, such as IT, property, intellectual property and brand?
- Does the charity use its resources to bring in more support from external sources?

People and resources include the organisation's staff, other resources and external support, and how it uses them.

We assess effectiveness of people and resources against four criteria: staff, use of volunteers, other resources (such as IT, property and brand), and external leverage.

1. Staff

Staff are the greatest asset that charities have. High-quality, committed, motivated, well-trained staff are central to success.

When analysing a charity, there are several questions that analysts can ask about staff:

- Are staff appropriately qualified and given an opportunity to develop? Ideally, there should be a mixture of experiences. Analysts can ask about the skills of staff and what the organisation invests in training and development.
- Are staff committed and motivated? Good staff morale is an important part of a high-performing organisation. Speaking to management and front-line staff should give a good sense of current feeling. Of course, morale has ups and downs, so it is important to consider it over a long period of time. Figures for staff turnover are often a good indicator, but need to be considered in context. For example, youth work organisations frequently have an annual staff turnover of above 30%, compared to an average of just over 16% for all charities.
- Are the knowledge and skills of staff used effectively? Analysts should look for evidence that staff's knowledge and ideas are used across the organisation, through communication and involvement in decisions. Decisions about services should not be taken without consulting those who work on the front line. Analysts should also look at whether staff are deployed in the right places, not overpromoted or asked to fill roles for which they are unqualified.

2. Use of volunteers

Volunteers are a valuable part of many charities' work. However, volunteers can be constrained in terms of time, skills and reliability. They can also be expensive to recruit, train and manage. To get the most out of volunteers, they need to be managed well.

Analysts should look at whether charities that use volunteers commit adequate resources to recruitment and training. Volunteers should understand what is required of them and be asked for a minimum time commitment. For example, in the case of mentoring, a mentor who regularly misses appointments can do more harm than good to the vulnerable person that he or she is mentoring. Investing in volunteer recruitment can provide a better service and save money later on, as dropout rates will be reduced.

Training needs to cover all major legal and practical issues, and once in post, volunteers should be used for appropriate tasks, managed well, and given the support that they need. Organisations that rely on volunteers should have a clear system for managing them, and each volunteer should have a manager who is there to give help and advice. Staff should have a good understanding of what volunteers are doing, and be able to intervene immediately in the event of a crisis.

3. Other resources (such as IT, property and brand)

Alongside staff and volunteers, organisations also have a range of other non-financial assets, such as computer equipment, land and buildings, intellectual property and brand. Analysts need to look at how these resources are being used and whether they are contributing to the charity's overall mission and goals.

IT systems should be adequate to do the job required. Medium and large organisations should have a website to communicate their activities and impact.

Analysts should look for evidence that property is used appropriately. Many charities have 'legacy assets'—often old buildings. The case to maintain these assets and their part in the organisation's overall strategy should be clear, particularly where they are expensive to keep. For example, when a historic building owned by Marie Curie Cancer Care and used as a hospice was no longer suited to providing modern palliative care, the charity sold the property and built new premises.

Where a charity owns an intellectual property right but does not have the resources to exploit it fully, the charity should have thought about how else its intellectual property could be used to meet its charitable purpose. For example, Cancer Research UK licenses its research discoveries to pharmaceutical companies. Only by working with these companies will the drugs receive sufficient investment to take them to clinical trials.

Charities should make the most of their brand and reputation. Organisations that have a strong brand should use it to communicate and campaign as well as to raise funds.

4. External leverage

Leverage refers to the ability of charities to use their resources to bring in more support from external sources. This might mean collaborating with other charities, convincing a local authority to work alongside them, or attracting pro bono support from corporations. Leverage depends on relationships that people in the organisation have, and their ability to spot opportunities. Although these have costs associated with them (such as those from managing the relationships with other organisations), they are usually lower than direct staff costs.

Whether organisations are doing enough to bring in external support and resources is difficult to assess. Analysts should consider whether greater collaboration could increase efficiency and improve services, and whether the charity is making the most of its contacts. One charity that is making the most of such opportunities is Tower Hamlets Summer University, a youth work charity based in east London, which runs courses for teenagers using facilities and expertise for training given freely by local companies.

Risk analysis

When analysing a charity's people and resources, analysts should consider the challenges and threats to the organisation achieving its goals. Important questions to consider include:

- Do the charity's staff have the correct mix of skills and experience?
- Does the charity invest enough in developing and retaining staff?
- Are staff and volunteers qualified in relevant legal areas, such as child protection?
- Does the charity take the appropriate measures to ensure the safety of its staff (for example, when working with people who are potentially violent)?
- Are assets well maintained? Are they likely to be a burden that could affect the organisation's future activities?

Example of analysis: Samaritans

Making the most of volunteers

Samaritans runs a 24-hour helpline for people in distress in the UK. Its volunteers answer five million calls every year, helping people to cope at difficult times, and in many cases, helping them to decide not to commit suicide. As one caller says: 'I desperately needed to talk to someone to support me through a very difficult period in my life. I don't think I would be here now if it wasn't for you.'

Volunteers are often seen as a 'free' resource. However, using them effectively—recruiting, training, managing, motivating and retaining them—is a considerable challenge, and one that can be costly. It is a particular challenge running an effective helpline, 24 hours a day, 365 days a year, providing sustainable, high-quality support to callers when they need it.

Samaritans has developed its volunteer system over many decades, and it is a unique asset. With just 85 members of staff, Samaritans supports 18,000 volunteers in 202 branches in the UK and Ireland. There are 212 Samaritans volunteers for each paid employee.

Volunteers are the lifeblood of the organisation—as well as answering calls, they are responsible for much of the management, including branch leadership, organisation, supervision, quality monitoring, administration, financial management and local fundraising. The average volunteer contributes more than 22 working days a year, and the time given by volunteers is estimated to be worth £27.6m every year for the helpline alone.

The use of volunteers also has a special effect on Samaritans' service and culture, and on the empathy that callers feel when calling the helpline. One in four volunteers were once callers themselves.

By using volunteers, the helpline costs Samaritans just £3 per call. More than 90% of callers get through to someone immediately, rather than hearing an engaged tone. Managing an effective workforce of volunteers is not an easy job, but Samaritans shows how, if done well, it can be a cost-effective approach.

For more information, see www.samaritans.org.



Photograph: Fairbridge

Finances

- Is the charity financially sound?
- Are there good processes for financial management?
- Are financial resources used efficiently?
- What are the unit costs of activities?

Finances refers to the money the organisation has, and how it uses this money.

We assess effectiveness of finances against four criteria: financial security, quality of financial management, efficiency, and unit costs.

1. Financial security

Financial security refers to how predictable a charity's income and expenditure are, how strong its balance sheet is, and what its outlook for the future is.

These factors affect its ability to continue its activities and plan for the medium and long term.

To determine the financial security of a charity, we need to look at its financial history, its current cash flow and its future projections. A key consideration is the charity's ability to manage fluctuations in income. Analysts should look at the following aspects:

- **Recent track record:** Has the charity been balancing income with expenditure? Does its track record match its ambitions?
- **Diversity of income:** Is the charity over-reliant on a small number of income sources?
- **Risks to major income streams:** How reliable is the charity's income? Which sources of income are most at risk and how does the charity plan to deal with this?
- **Composition of income (restricted or unrestricted):** Is all of the charity's income tied up in projects? How much room does it have to manoeuvre?
- **Reserves:** Does the charity have an appropriate level of cash to meet immediate financial commitments and provide some flexibility in case of unexpected events? Does the charity have a clear reserves policy that justifies the level of reserves? (See Box 7.)
- **Short-term cash flow:** Is the charity's income sufficient to meet its monthly obligations, such as rent and payroll? Will delays cause problems?
- **Future liabilities and commitments:** Can the charity meet its financial commitments? What debts does it have? Has the charity had pension liabilities valued correctly and taken proper advice?
- **Investment policy:** Does the charity have a sensible approach to managing its assets? Is risk managed by spreading investments?

Box 7: Reserves

As a rule of thumb, NPC considers it prudent to keep the equivalent of at least three to six months' operating expenditure in reserve. Charities should have a clear reserves policy that justifies the level of reserves and how they are invested.

When assessing reserves, it is also important to consider what form they are in. If reserves are all tied up in debtors, or restricted to future projects, then this may affect the charity's ability to meet its short-term liabilities. It is prudent for charities to hold some unrestricted cash that can be used in an emergency.

Calculating reserves

There are many different ways of calculating reserves. NPC prefers to look at the ratio of net current assets plus investments to the costs of running the organisation. This can be expressed as the number of months' worth of expenditure kept in reserve. Calculating reserves in this way gives a sense of how the organisation might manage in the event of an unexpected drop in income.

To calculate reserves, we use the following formula, taking figures from the charity's annual accounts:

$$\frac{(\text{current assets} + \text{realisable investments} - \text{current liabilities})}{\text{average monthly expenditure}}$$

- **Current assets** include cash, stock and debtors (including trade debtors).
- **Realisable investments** are those not already included in current assets, such as shares in listed companies, bonds, or funds that can be quickly converted into cash.
- **Current liabilities** include trade creditors, overdrafts and loans due within a year.
- **Average monthly expenditure** is the total annual expenditure divided by 12. This includes operating costs, such as salaries, rent and utilities. Other deferrable costs, such as capital expenditure, should be considered separately.

2. Quality of financial management

Financial management refers to the ability of organisations to understand and control their income and expenditure, and balance day-to-day needs with long-term objectives.

Although all organisations need good financial management to underpin their activities, the quality does vary, partly depending on the size of the organisation. Small charities often lack the resources to pay someone with the expertise to manage them. In this case, the chief executive or someone senior

in the management team should be familiar with the finances and be able to answer questions competently. A financially literate trustee can help, but it can be risky to rely on a trustee. In large charities, we expect a high standard of financial management.

To judge how well managed finances are, analysts can look at the following aspects:

- **Published financial information (annual report and accounts):** Are the accounts well presented, transparent, accurate, and unqualified by auditors?
- **Internal financial information:** Does the charity have good internal financial information, produced in a timely manner, which can help management make rapid decisions and plan ahead? Management accounts should be well presented and show progress against the budget, so that the organisation can analyse differences and adapt if circumstances change.
- **Procedures:** Does the charity have clear and sensible procedures for approving expenditure and making payments, to safeguard from fraud or excess? Does it have a process for chasing invoices and managing debtors? Procedures should be clear but not over-bureaucratic, so as not to hold back innovation.
- **Budgets, forecasts and cash flow:** Is the charity able to look into the short to medium-term future? Do its projections for future income look realistic?

3. Efficiency

Efficiency refers to the ability to control costs and ensure that waste is kept to a minimum.

Organisations must have a good understanding of their costs, their sources of expenditure, and how these are likely to fluctuate. Management should be able to justify its expenditure and point to efforts to improve efficiency, such as cost-reduction targets.

The culture of the organisation and attitude of the chief executive are key to efficiency. This is not about spending as little as possible on administration, fundraising, or the salary of top management. Charities have to invest in these functions to be effective (see Box 8). Analysts should look for evidence that charities spend wisely and that waste is kept to a minimum, but be wary that underinvestment does not hold the charity back.

Box 8: Administrative and fundraising costs

When analysing charities, it is tempting to look for simple measures of administrative efficiency, such as the proportion of income spent on overheads. But when it comes to judging how effective a charity is, such a measure can be misleading on its own.

Administrative cost is not a predictor of what a charity achieves. In fact, spending more on back-office staff can lead to improved results. For example, by employing more secretaries, the Disability Law Service, a charity that employs solicitors to give advice to disabled people, was able to relieve the burden of administration on the solicitors and serve more clients at a lower cost.

As well as being potentially misleading, administrative spend is not straightforward to interpret. Despite guidelines, charities use a variety of methods to report on administrative costs. For example, one charity might report the salary of an office manager as an administrative cost, while another might report it as a cost within its charitable activities. Without a detailed knowledge of a charity's expenditure, simple comparisons of costs can be misleading.

Fundraising costs raise similar issues. Some causes are inherently more popular with funders, and it is easier to raise money in some geographical areas than others. The costs of raising money tell us little about results achieved for beneficiaries, and we must be careful about making comparisons between charities.

It is therefore dangerous to use reported administrative or fundraising costs as the basis of any judgement of effectiveness. Analysts should ask themselves whether the charity is spending wisely on fundraising and administration, and if the ratio of spending to income is reasonable. Comparing the cost ratios of similar organisations may give a clue as to whether a charity is using its resources efficiently. However, simple financial indicators of a charity's operational efficiency should always be considered within the broader context of the charity's results.

NPC recently analysed a charity working overseas. We found that because the organisation managed its work from a very small head office in the UK, it was in fact under-resourced centrally, and struggled to oversee activities on the ground. This created inefficiencies, especially around planning and reporting, and NPC felt that increasing the capacity of the central team would have been a good investment.

4. Unit costs

A unit cost is the financial cost to a charity of working with one beneficiary. Analysts can calculate a unit cost per user of a service or, where the charity has information on the outcomes it achieves, analysts can calculate a cost per successful user.

Unit costs give a sense of the efficiency of an organisation, and whether it provides value for money. They are needed when identifying economies of scale, and are the basis for any cost-benefit analysis. Where comparisons are available, unit costs can also help to benchmark the organisation's work.

Unit costs can be calculated using a 'top down' method—by dividing the total costs incurred by an organisation by the number of people it helps. Or they can be calculated using a 'bottom up' method—by adding together elements of known costs.

The first method is appropriate for charities that have distinctive activities or only one activity. It has the advantage of capturing all costs, although it is sensible to exclude one-off costs incurred that year. This is NPC's preferred method, as it includes overhead costs, such as management time, fundraising costs, and depreciation of facilities. The second method can be applied to organisations with more complicated activities, but it is more problematic in allocating overhead costs, and risks underestimating the true cost.

When making comparisons between the unit costs of different organisations, analysts must be careful to compare on the same basis. For example, the total cost of providing services funded by voluntary donations will be higher than for those funded by contracts, as they include the costs of fundraising. Analysts must be aware of this, as it means that charities may look much more expensive than other providers.

Risk analysis

When analysing a charity's finances, analysts should consider the challenges and threats to the organisation achieving its goals. Important questions to consider include:

- Has the organisation anticipated the main risks to its income?
- Does the organisation have good processes to manage its expenditure and control costs?
- Is the organisation's short-term cash flow secure, and does it have a means of meeting its liabilities?
- Are reserves adequate to protect against anticipated risks and take advantage of future opportunities?

Example of analysis: Fairbridge

Efficient central management supporting local centres

Fairbridge works in inner cities with young people aged 13 to 25 who are not in education, employment or training. It has 15 local centres across the UK, supported by a head office in London.

Fairbridge's work is underpinned by sound financial management. This includes good processes for planning and budgeting, clear targets for income and expenditure, and a clear reserves policy. The chief executive has a strong grasp of the finances, and the trustees—many of whom have a business background—provide support to the management team. Fairbridge's accounts are well presented and always produced on time.

Generating income is a shared responsibility between Fairbridge's head office and centres, supported by regional fundraising committees. Each centre has a set target, and centre managers are in close correspondence with head office throughout the year. The target for each centre depends on what income is available locally. On average, head office contributes around a third of each centre's budget.

To ensure that the charity as a whole does not suffer, Fairbridge is unafraid to make tough financial decisions. It recently closed its Swansea centre, as it was consistently unable to secure enough funding locally. The charity decided that it was not fair to use funds raised by the central and other local fundraising teams to subsidise the Swansea centre to such an extent.

The trustees set a clear reserves policy that is regularly reviewed. This includes keeping three separate funds: an emergency fund to absorb unexpected falls in income; a recovery fund to allow the organisation to pick itself up after such an event; and an opportunity fund to take advantage of other prospects that might arise. The first two funds are kept as cash.

Fairbridge is a very well-run charity, focused on delivering long-term support to disadvantaged young people. It realises that running a charity in an efficient and businesslike manner offers the best way to help as many young people as possible to avoid a life scarred by unemployment.

For more information, see www.fairbridge.org.uk.



Photograph: Chance UK

Ambition

- Does the charity have the potential to grow, replicate or expand its services in other ways?
- Does the charity have the potential to improve its results?
- Does the charity have the potential to influence other organisations or have a wider impact on its area of focus?
- Does the charity have the ability and willingness to change?

Ambition refers to the organisation's goals and strategy, and the impact these are likely to have. Ambitious charities look to achieve long-term change by setting realistic, achievable targets.

We assess effectiveness of ambition against four criteria: potential to grow or replicate, potential to improve results, potential to solve problems more widely, and willingness to change.

1. Potential to grow or replicate

The ability to grow or replicate a service increases a charity's potential impact. It might expand its own services or encourage other organisations to take up its approach. However, growth is not necessarily an indicator of success for a charity, as it is for profit-making companies. In particular, large charities must be careful not to undermine smaller organisations that may be doing a better job than they are.

Some charities have an aggressive strategy to increase income and expand services, perhaps by moving to new areas or growing in their current locations. Growth plans should be realistic, justified and mindful of the risks involved. For example, The Place2Be, an organisation that offers counselling to primary school children, will only open a new branch if it has at least three years' committed income.

Analysts should look for a well-argued business case and be wary of high up-front costs or a plan that depends on short-term grants or contracts. Analysts should also consider the organisation's track record and any underlying trends in the industry.

Growth or replication need not happen through the charity itself; sometimes it means working with other organisations. If they lack access to capital, small and medium-sized charities can find it hard to expand. In these cases, working with other organisations or encouraging others to adopt their approach may be the most effective way to grow. For example, the London-based mentoring charity Chance UK partners with several organisations in other parts of the UK to help them to establish and run schemes similar to its own.

2. Potential to improve results

Ambitious charities actively seek opportunities to improve their results. Good processes for assessing impact, a record of using experience to hone activities, and being unafraid to try new techniques are all hallmarks of an organisation that is ambitious to become better.

Analysts should look for indicators of past improvement and a commitment to learn from current work. Can the charity give examples of how it has learned from its mistakes and adapted its services? Does it have systems in place to learn from its future work? Macmillan Cancer Support, for example, has an Intelligence and Research Team that is responsible for evaluating all of the charity's work, providing information to adapt and improve its services.

3. Potential to solve problems more widely

Ambitious charities seek to exert influence beyond the limits of their day-to-day services. An organisation's 'charitable purpose' can be as broad as the relief of poverty or the prevention of child abuse, which implies that organisations should look to use their resources however they can to improve the lives of their target group.

Analysts should look for evidence that a charity is using its expertise and contacts to solve problems or influence others to improve. For example, TreeHouse, which runs a school for children with autism, offers training to teachers and other professionals in its methods. This helps increase the knowledge and skills of other organisations working with people with autism.

Sharing information and results is an important element of this potential influence. NPC recently met a disabled children's charity whose work on mobility issues was impressive. The charity was accumulating important data on the economic benefits of improved mobility, but its focus was limited to the 50 children it directly helped. Not seeing itself as a campaigning organisation, the charity did not share its expertise and information with other charities that could take up the issue on its behalf.

4. Willingness to change

Charities should ask themselves regularly whether they are best placed to do their job. Trustees and managers need to look beyond the narrow concerns of their organisation to its wider charitable purpose. This means putting the needs of beneficiaries above the needs of the organisation. If a charity is not best placed to support its beneficiaries, it should consider closing down, merging or collaborating with another organisation, or changing its activities significantly.

For example, in 2008, the London-based community organisation Charterhouse-in-Southwark decided to wind down its activities, passing them to another local charity, Training for Life. It used its remaining assets to give grants.

Risk analysis

When analysing a charity's ambition, analysts should consider the challenges and threats to the organisation achieving its goals. Important questions to consider include:

- Is the organisation well placed to manage unexpected events and take advantage of opportunities that present themselves?
- Is the charity at risk of being too ambitious and losing sight of the people it exists to help?
- Is the charity ambitious enough? Does it risk underachieving or being left behind by social or technological change?

Example of analysis: Chance UK

An ambitious but realistic approach to growth

Chance UK provides a mentoring programme for disadvantaged children in London. Children selected for mentoring have emotional and behavioural difficulties, and are typically from low-income households. They are matched with trained volunteer mentors, and meet together once a week. The mentoring programme ends with a graduation ceremony at the end of the year.

Mentoring is a tricky business and tough to get right. It is important to set expectations for both volunteer mentors and children so that they can get the best out of the relationship.

The way Chance UK's model has developed has made it easy to replicate. With evidence to back up its approach and written materials sharing its methods, Chance UK has two growth strategies: first, opening more of its own schemes in London; and second, encouraging organisations elsewhere in the UK to replicate its approach.

As a small charity, Chance UK understands its limits and has chosen to stay within London, where there is plenty of demand. It has schemes in Hackney, Islington and Lambeth, and is in discussions with funders in four other boroughs.

Elsewhere, Chance UK has spread its work by 'franchising' its model to other organisations, providing training and support. Over the last three years, the charity has overseen the opening of six new projects. This is an intelligent way of ensuring that more children benefit from Chance UK's work, while reducing the risk to the organisation.

Chance UK's managed approach to growth, and willingness to work with partners, means that it has been able to extend its approach widely without risking its core mentoring schemes.

For more information, see www.chanceuk.com.

Adapting the framework

4

In this section, we discuss how our approach can be adapted to apply in different contexts. We discuss five situations: large, complex charities, campaigning charities, community organisations, umbrella organisations and membership bodies, and charities that work in developing countries.

Large, complex charities

Disentangling the various activities of a large, complex charity, and working out how they all fit together, presents perhaps the greatest challenge for a charity analyst. The analyst has to consider whether the range of activities makes sense and whether there are connections between activities.

It is especially important to consider the position that large charities occupy within their industry. Do they support or undermine other organisations? Do they share their knowledge and results? Also, large charities are seen by the public as representing a particular issue, and have a responsibility to build and maintain goodwill towards that issue.

The challenges of size mean that analysts may not be able to look directly at most of the work of a large organisation. This makes understanding management and internal processes even more important. Does the management team communicate clearly to staff? Are there consistent processes between different projects? Do the staff in different parts of the country have the same understanding of what the organisation does?

Large charities often have significant resources and a strong voice. Analysts should consider how charities use these resources. Are they using their brand for more than just fundraising? Are they using their access to government decision-makers to influence policy and legislation for the long-term benefit of their beneficiaries? Are they using their financial assets to invest in long-term initiatives, such as research, or piloting new services?

More information on analysing large, complex charities can be found on NPC's website at www.philanthropycapital.org/how_we_help/research/examples_of_charity_analysis.

Campaigning charities

Running a successful campaign requires careful planning, and it can take a long time to achieve results. These results are often intangible and hard to prove.

Legitimacy and credibility are crucial to running an effective campaign. Both require charities to have a strong evidence base to draw on when formulating their campaign goals and messages. One charity that backs up its campaigns with research and evidence is London Citizens. The charity's Living Wage Campaign seeks to influence employers to pay workers in the capital a 'living wage', which is 35% more than the UK minimum wage, to reflect the higher costs of living in London. The campaign began in 2001 with a clear and detailed justification for the size of the living wage, and an awareness of the scale of the problem.

When assessing campaigning organisations, it is important to look for evidence of the progress that they are making towards achieving their ultimate aim. One of the main challenges for leaders of campaigns is maintaining momentum over a long period of time. This can be helped by tracking interim results and communicating them to staff and supporters. Without ongoing monitoring and evaluation, a campaign can lose focus and alienate its supporters.

Campaigning charities must be able to adapt to change, as many campaigns last for years. Campaigns must be able to adjust to changes in government, changes in leadership, and cultural shifts, as well as remaining appealing to their audience. For example, after the prominence of HIV/AIDS campaigns in the 1980s, which targeted gay men in the UK, campaigning organisations such as Terrence Higgins Trust have had to shift their focus to raising awareness among a much broader group of people at risk.

A campaign must include extensive collaboration with others. This helps to improve the quality and efficiency of the campaign, and builds support. One good example of collaboration is the Time to Change campaign, which brings together the charities Mind and Rethink to tackle people's prejudices against mental health. This campaign has potential to achieve more than either charity could on its own.

NPC's report *Critical masses* explores the role of campaigning charities and looks at how to monitor and evaluate campaigns.

Community organisations

Community organisations are usually small with a wide range of activities. They are in close contact with local needs and services, and as a result, are often dependent on individual relationships, local knowledge, and being a trusted part of the community. They rarely collect data on results, relying instead on direct observation of individuals.

This presents a challenge to analysts judging effectiveness. All of the areas discussed in NPC's framework apply to community organisations, but with different expectations and emphasis. In particular, analysts must understand how a community organisation fits into the community, and how it is collaborating with other local organisations. Analysts should look for competent financial management, but understand that income may be fragile and uncertain.

NPC is working on a project to measure the impact of community organisations in partnership with the Institute for Voluntary Action Research. Its findings are expected to be published at the end of 2010.

Umbrella organisations and membership bodies

Umbrella organisations and membership bodies support other charities or individuals, either to strengthen a given profession or to achieve a particular objective. They are unique in their activities, in the way they collaborate with other organisations, and in their governance structures. Defining their results and how successful they are at supporting their members presents a particular challenge to analysts.

NPC has limited experience of analysing umbrella organisations and membership bodies. We would like to develop this area of analysis in the future.

Charities in developing countries

When analysing organisations that work in developing countries or across more than one country, analysts often face constraints. It can be a challenge to access detailed information on charities where reporting is haphazard and poorly regulated. Often, organisations do not have basic information about their activities and finances, let alone their impact. More practical challenges that have to be overcome include language barriers and properly understanding the local cultural and political context.

NPC has analysed charities in India and South Africa, and in 2008 and 2009, we were part of a joint venture with Copal Partners, based in Delhi, to analyse Indian organisations. For more information, see our reports *Giving in India* and *Starting strong*.

5

Using the framework to grade charities

In this section, we describe how our framework can be used to make judgements about how effective a charity is.

Making judgements about effectiveness

All charities have strengths and weaknesses. NPC's analysis framework can be used to identify them, and spot areas for improvement.

However, applying the framework requires judgement and relies on the skills and opinions of the analyst. Analysis is therefore a mixture of objective assessment and subjective opinion, and must take into account the context in which the charity is working (such as what other charities are doing in the area and what resources are available).

Grading charities

As part of the analysis process, NPC's framework can be used to grade charities, giving them a rating in each of the six areas. Grading charities helps to track progress over time and set targets for improvement.



Photograph: Kristian Buus

Figure 5 sets out a grid that can be used to give charities a grade on each part of the framework, describing the level of effectiveness—excellent, good, satisfactory or below expectations.

- A charity that is judged **excellent** in a part of the framework is highly capable in that area, clearly orientated to do the best for its beneficiaries, and has a ‘wow’ factor. For example, to be excellent on results, organisations must systematically track their outcomes, use data to improve their services, and disseminate results information for wider benefit.
- A charity that is judged **good** demonstrates clear competency in an area and is well placed to make improvements. For example, a charity that is good on results might have a clear process for measurement and evidence of outcomes, but may not use this evidence to improve its services.
- A charity that is judged **satisfactory** may have some strengths in a particular area, but will also have some weaknesses. It may have identified its weakness and be taking steps to improve. Or it may be ‘coasting’ and content to be average. For example, a charity that is satisfactory on results might have isolated evaluations of positive outcomes, but make little contribution to a wider understanding of the area in which it works.
- A charity that is judged **below expectations** has significant weaknesses in an area, and shows little capacity to improve. For example, it might collect no information on the results of its work.

What to expect from charities

Judgements made on whether an organisation is excellent, good, satisfactory or below expectations must take into account the context in which the charity is working. For example, a well-established charity with significant unrestricted funding would be expected to have a better system for measuring results than a start-up charity. Similarly, a charity operating in a field that has well-developed outcome measures (such as mental health) would be expected to have better results information than a community organisation offering a range of local services.

All judgements should be accompanied by a clear description that explains the grading decision.

Figure 5: NPC's charity effectiveness grading grid

Framework		Grading grid		
Area for analysis	Assessment criteria	Excellent	Good	
Activities	<ul style="list-style-type: none"> • Focus on greatest needs • Range of activities • Ability to adapt and innovate • Links between activities • Risk analysis 	<p>Targets the highest priority needs or areas that are particularly difficult to fund</p> <p>Actively involves users in shaping services</p> <p>Provides a comprehensive range of activities, with no gaps</p> <p>Develops and pilots innovative services</p> <p>Makes the most of links between services</p>	<p>Mainly targets high-priority needs or areas that are difficult to fund</p> <p>Consults service users at times</p> <p>Provides a good range of activities</p> <p>Adapts to external changes</p> <p>Achieves some good links between services</p>	
Results	<ul style="list-style-type: none"> • Results culture • Evidence of positive results • Quality of evidence • Sharing results • Risk analysis 	<p>Systematically tracks results over long periods (if well established)</p> <p>Has strong results showing improvements to service users' lives or other impact</p> <p>Uses data to improve services</p> <p>Significantly strengthens the sector, for example, by disseminating knowledge, improving attitudes</p>	<p>Measures results, but not systematically</p> <p>Has good results</p> <p>Has convincing theory of change, supported by plan to deliver results</p> <p>Actively helps to strengthen the sector</p>	
Leadership	<ul style="list-style-type: none"> • Management team • Governance • Vision and strategy • Priorities • Risk analysis 	<p>Has inspiring leader, stimulates change and proactively seeks support to achieve goals</p> <p>Led by a strong management team, evidenced by good staff morale</p> <p>Has a clear, realistic vision, supported by a convincing strategy with measurable targets</p> <p>Demonstrates very good governance processes: board demonstrates all desired qualities and evaluates its own performance</p> <p>Allocates resources for maximum impact based on robust analysis</p>	<p>Led by an effective chief executive who catalyses commitment to a common vision</p> <p>Has a sound management team, which supports the leader</p> <p>Has a clear vision and strategy, but few measurable targets</p> <p>Demonstrates good governance processes, with strong board (although some areas could be improved)</p> <p>Plans and manages allocation of resources</p>	

	Satisfactory	Below expectations
	<p>Provides services where there are clear needs, although they are not particularly high priority</p> <p>Occasionally consults users</p> <p>Has some gaps in its range of activities</p> <p>Provides some flexibility in activities</p> <p>Achieves some links between services, but could do more</p>	<p>Provides activities that are 'nice to have', but not essential, and may duplicate others</p> <p>Rarely consults users</p> <p>Has activities that are too limited to achieve goals</p> <p>Shows little evidence that services adapt to change</p> <p>Shows no attempt to make links between services</p>
	<p>Has isolated evaluations that show positive results, or is in high demand, or uses a method of intervention proven elsewhere</p> <p>Has clear desire and potential to improve evidence base</p> <p>Contributes to the sector at times</p>	<p>Makes little impact, or shows little evidence of impact</p> <p>Does little to strengthen the sector or to support others working in the same field</p>
	<p>Has a competent leader who can deliver goals</p> <p>The management team lacks skills in some areas</p> <p>Has a clear vision, but the strategy is not always translated into action</p> <p>Has adequate governance, but board does not seem to have much of an impact</p> <p>Considers resource allocation</p>	<p>Has poor management</p> <p>Has no clear strategy, or a flawed strategy</p> <p>Cause for concern through poor governance (for example, lack of key skills on the board, ineffective governance structure)</p> <p>Does not plan allocation of resources</p>

Framework		Grading grid		
Area for analysis	Assessment criteria	Excellent	Good	
People and resources	<ul style="list-style-type: none"> • Staff • Use of volunteers • Other resources (such as IT, property and brand) • External leverage • Risk analysis 	<p>Has staff that is outstanding in its quality and commitment</p> <p>Manages volunteers well and uses them effectively</p> <p>Has all the non-financial resources it needs and manages them professionally</p> <p>Gains additional resources from external support, for example, by securing pro bono support or working in collaboration</p>	<p>Has high-quality staff with above-average commitment</p> <p>Manages volunteers well</p> <p>Manages non-financial resources well, although this could be strengthened</p> <p>Has some external leverage and increasing collaborations</p>	
Finances	<ul style="list-style-type: none"> • Financial security • Quality of financial management • Efficiency • Unit costs • Risk analysis 	<p>Has a healthy and diverse financial base, which is getting stronger</p> <p>Uses voluntary income appropriately and for a distinct purpose</p> <p>Demonstrates strong financial management</p> <p>Boosts efficiency through detailed cost analysis and efficiency targets (if a large charity)</p> <p>Has excellent cost data (such as cost per user)</p>	<p>Is well funded and stable, with a fairly diverse income</p> <p>Makes good use of voluntary income</p> <p>Has internal cost controls and benchmarking processes</p> <p>Has better than average cost data</p>	
Ambition	<ul style="list-style-type: none"> • Potential to grow or replicate • Potential to improve results • Potential to solve problems more widely • Willingness to change • Risk analysis 	<p>Aims to reach significantly more people in more profound ways</p> <p>Focuses on mission without being self-centred (evidenced, for example, through sharing information and collaborating)</p> <p>Makes a constant effort to be the best it can</p>	<p>Aims to reach more people and/or to help them in more profound ways</p> <p>Looks for opportunities to solve the issue it addresses more widely</p> <p>Makes some effort to review and improve how it works</p>	

	Satisfactory	Below expectations
	<p>Has staff that is average in its quality and commitment</p> <p>Has ad hoc approach to using volunteers</p> <p>Demonstrates adequate non-financial resources for current operations, but with limited future potential</p> <p>Can show external leverage and collaboration, but this is unlikely to increase significantly</p>	<p>Has shortfall in staff capacity</p> <p>Does not consider using volunteers, or manages volunteers badly</p> <p>Has inadequate or badly-managed non-financial resources</p> <p>Is inward-looking, with few external relationships</p>
	<p>Is financially stable, but would benefit from additional funding or greater income diversity</p> <p>Sometimes uses voluntary income to supplement statutory contracts</p> <p>Has internal cost controls but no efficiency improvement targets or benchmarking</p> <p>Has average comparative cost data</p>	<p>Has financial concerns</p> <p>Is uncertain about how voluntary donations will be used</p> <p>Has few cost controls</p> <p>Shows unfavourable cost data</p>
	<p>Plans gradual expansion, replication or improvement of existing services</p> <p>Has some external influence</p> <p>Shows little evidence of making an effort to improve</p>	<p>Has no convincing plans to grow, replicate or improve services</p> <p>Is inward-looking and resistant to change</p>

Further information

6

This section lists sources of further information on NPC's approach to charity analysis, and describes how NPC can help organisations that want to do analysis.

NPC's analysis and consultancy services

NPC is available to provide independent expert analysis of organisations on a fee-paying basis.

Our approach to analysis is based on the framework described in this booklet, and can focus on all or part of your work. It can help you to identify strengths and weaknesses, and make improvements.

NPC also offers bespoke consultancy services to charities and funders to help them improve their strategy or measure the results of their work.

For more information and contact details, see www.philanthropycapital.org/how_we_help/consulting.

More information on NPC's charity analysis

- Our website, www.philanthropycapital.org, includes detailed working papers on various aspects of analysis.
- Go to www.philanthropycapital.org/charityanalysis to see examples of NPC's charity analysis: www.philanthropycapital.org/how_we_help/research/examples_of_charity_analysis.
- See up-to-date articles and discussion about charity analysis on the NPC blog: www.newphilanthropycapital.blogspot.com.
- Go to www.nonprofitanalysts.org to read about a proposed association of nonprofit analysts, which would promote the discipline and standards of charity analysis (see Box 9).

Box 9: An association of nonprofit analysts

NPC is keen to promote the discipline and standards of charity analysis.

To show our commitment to this, we are setting up an association of nonprofit analysts. The association is envisaged as an international membership organisation made up of individuals dedicated to the analysis of nonprofits, including grant-makers, philanthropic advisors, venture philanthropists and charities. The association will be a peer group for analysts, providing them with a forum for sharing and learning, and supporting the development of a profession of nonprofit analysis.

By creating a network of practitioners, the association will provide a basis for charity analysis to be recognised as a profession. The initiative is inspired by the idea that by enabling analysts to share best practice, they will be able to help nonprofits to make the biggest possible impact. By enabling analysts to learn from each other and by promoting the use of standard, useful, powerful analytical tools, the organisational analysis of nonprofits should become better, which in turn means that nonprofits themselves should strive to be more effective.

The association is an initiative conceived by NPC, and developed in partnership with Bertelsmann Stiftung in Germany. In May 2009, NPC and Bertelsmann Stiftung held a conference in London to explore the role for the association. It was attended by over 200 delegates from 20 countries.

For more information and to read a report on the conference, see www.nonprofitanalysts.org.

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About NPC

New Philanthropy Capital (NPC) is a consultancy and think tank dedicated to helping funders and charities to achieve a greater impact.

We provide independent research, tools and advice for funders and charities, and shape the debate about what makes charities effective.

We have an ambitious vision: to create a world in which charities and their funders are as effective as possible in improving people's lives and creating lasting change for the better.

- For charities, this means focusing on activities that make a real difference, using evidence of results to improve performance, making good use of resources, and being ambitious to solve problems. This requires high-quality leadership and staff, and good financial management.
- For funders, it means understanding what makes charities effective and supporting their endeavours to become effective. It includes using evidence of charities' results to make funding decisions and to measure their own impact.

For more information, see www.philanthropycapital.org.



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