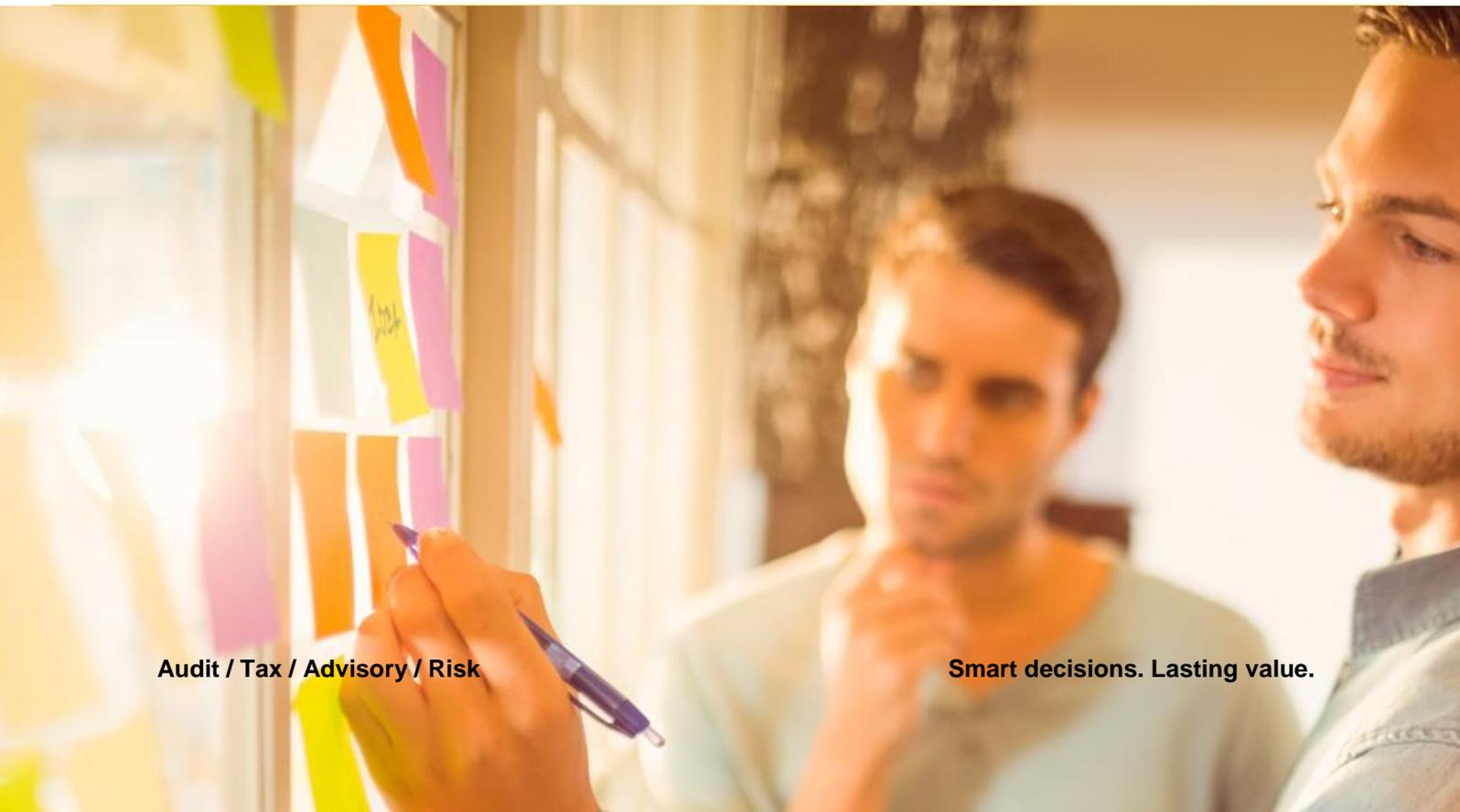




Establishing key performance indicators for charities

May 2016
Nicola May, Partner



Audit / Tax / Advisory / Risk

Smart decisions. Lasting value.

Measuring your success

A Key Performance Indicator (KPI) is a measurable value that demonstrates how effectively an organisation is achieving its key business objectives. KPIs are a popular buzzword within the commercial world and have been for many years but they also have an important place within charities, where the need to understand in real-time the performance or contribution of each activity has never been more important. With many charities facing restructuring plans, difficult decisions on which activities and areas to focus on, consideration as to where, and how much, to invest and a broad range of stakeholders to satisfy, KPIs are rising up the Board agenda.

Determining your KPIs - one size doesn't fit all

So what does a good charity KPI look like? Given the diversity in the sector, it is not appropriate to set a fixed unit of measurement, as all charities differ. This does create challenges in comparability and also in interpretation. There is a risk that cheap and easy measurements are used in a quest for comparability, leading to a focus on ratios such as fundraising costs, but such measures do not adequately allow for the many good reasons as to why charities have different cost ratios.

Part of the challenge for charities is that in most cases your aims are less visible and quantifiable than those for a commercial organisation. The first problem you have is working out what to measure. To get started, charities need to link performance measurement to their strategy. There is a need to be clear about vision, mission and values – what is the charity in business for? What does it want to be? How will the charity achieve its mission? What are its guiding principles? Charities should then develop a series of strategic aims which will form the basis of Board and management focus, creating a need to then think about how success in achieving these will be effectively measured. In this way, KPIs play a key role in strategy development, in measuring how efficiently a charity is operating and what progress is being made.

A frequent challenge for charities is that many strategic aims do not relate to financial outputs, or directly related outcomes, that can be easily measured. For example, it may be a long time before an outcome is achieved, or it may be difficult to conclude on whether it was the activity of the charity that made the difference. But it is important that the focus is not wholly on outputs and outcomes. Charities also need a clear understanding of their key activities and should identify milestones to ensure progress can be measured along the journey.

There are a range of things that can be measured, although measurements should be meaningfully related to the organisation – don't measure something just because you can.

Key characteristics of a good KPI include:

1. Clear definition: set a clear and consistent definition but ensure regular review for relevance. Set a target for the year and be mindful of sector or funder benchmarks.
2. Assign responsibility: KPIs should be linked to the responsibilities of a particular person or section. This means someone should be able to act on the findings.
3. Timely: If data is taking so long to collect that the organisation has moved on it is of little value.
4. Cost effective: Measurement is a resources issue and grants and funders are not always willing to cover the cost.
5. Integrated: Look to use existing infrastructure where possible and build into administrative procedures. Do not make KPI measurement a bolt on activity.
6. Trend analysis: Single metrics are of little use on their own and snapshots of information do not tell the full story, leading to a need to measure and report on trends.
7. Exception reporting: Ensure exception reporting is in place to identify when things may not be going to plan.
8. Simple: It is not always possible to have straightforward, immediate and transparent measures, but that's the goal to aim for.

Overall there is a need to focus on critical success factors, link the charity's strategy, resources and activity, and look at processes as well as outputs.

So what shortcomings do we see in charities when looking at KPIs. There is a risk that the KPIs are not connected to the "customer." In many cases they focus on outputs only, without breaking the activity down into its component parts. There is a risk of short term focus – if funding is received for a particular project for a period of time, this can influence the approach taken. There is often a lack of integration with organisational objectives, a focus on historical information rather than real time activity and they can be made overly complex. Charities should identify the standards of performance achievement already in place, for example, requirements from funders, local authorities or regulatory bodies. Do not reinvent the wheel if information is already available.

On a positive note, whilst there is still a long way to go, KPIs are increasingly being discussed around the board room table. Whether driven by funders' requirements, investment in restructuring or as a result of increased competition to survive or progress, charities need to know in real-time the performance or contribution of each key activity and there is no reason why charities cannot benefit in the same way as businesses from measuring KPIs.



Start the conversation

Nicola May

Partner, Non Profits

020 7842 7284

nicola.may@crowe.co.uk

About us

Crowe UK is a national audit, tax, advisory and risk firm with global reach and local expertise. We are an independent member of Crowe Global, the eighth largest accounting network in the world. With exceptional knowledge of the business environment, our professionals share one commitment, to deliver excellence.

We are trusted by thousands of clients for our specialist advice, our ability to make smart decisions and our readiness to provide lasting value. Our broad technical expertise and deep market knowledge means we are well placed to offer insight and pragmatic advice to all the organisations and individuals with whom we work. Close working relationships are at the heart of our effective service delivery.



www.crowe.co.uk

Crowe U.K. LLP is a member of Crowe Global, a Swiss verein. Each member firm of Crowe Global is a separate and independent legal entity. Crowe U.K. LLP and its affiliates are not responsible or liable for any acts or omissions of Crowe Global or any other member of Crowe Global. Crowe Global does not render any professional services and does not have an ownership or partnership interest in Crowe U.K. LLP.

This material is for informational purposes only and should not be construed as financial or legal advice. You are encouraged to seek guidance specific to your circumstances from qualified advisors in your jurisdiction. Crowe U.K. LLP is registered to carry on audit work in the UK by the Institute of Chartered Accountants in England and Wales and is authorised and regulated by the Financial Conduct Authority.

© 2018 Crowe U.K. LLP