



# Benchmarking charities: the power and the challenge

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**Now more than ever charities are focusing on results, reducing costs, focusing on efficiencies and on innovation. The success of the sector is not and indeed should not be measured in terms of how much income it will raise but on its ability to demonstrate its effectiveness and impact. In this operating context, benchmarking as a tool can be very helpful if used properly. It can help decrease costs, improve effectiveness and increase impact. It can also be used as a tool to explain a charity's mission to its key stakeholders and funders.**

In brief, benchmarking can be used as critical thinking tool to answer three important questions:

- Why do we do the things that we do?
- How do others do it?
- Why should we change?

Whether we like it or not everyone makes comparisons and judges one organisation's performance against others. In fact comparisons are encouraged now more than ever. Just look at the schools league tables or the NHS comparison tables. The internet has in fact made comparisons or benchmarking possible in at large scale – consider sites like TripAdvisor or Moneymarket.com. Increasingly, organisations are forced to publish the results of various actions as a way of encouraging societal shifts in behaviour by government and regulators or as an encouragement to making improvements in working practices. For example, gender pay reporting or supplier payments performance or corporate social responsibility statements or in the charity sector disclosures around fundraising or those proposed by some on executive pay disclosures.

There have indeed been many flawed attempts in the charity sector of using cost ratios as a measure of charity performance. See Pesh Framjee: Neither true nor fair - A critique of the True and Fair Foundation's Review of Charitable Spending by UK Charities  
<https://www.croweclarkwhitehill.co.uk/non-profits-charitable-spending/>

The Charity SORP consultation published in 2017 was promoting the concept of a "Key Facts Summary" with the explanation that there should be a "simple summary containing key information as an annex to the report." These key facts would include things like charitable expenditure as a proportion of total income expressed as both a percentage and the equivalent pence in the pound.

The key facts summary has been advocated by some in the charity sector for some time as a way of gaining public trust and confidence. Proponents argue that charity accounts are incomprehensible and too long for non-accountants. However, if not considered with care a key facts summary could actually undermine the public's confidence because it will be looking at figures and ratios which in isolation cannot really explain the impact a charity has made.

## What is benchmarking?

The Oxford Dictionary defines a benchmark as, *“a standard or point of reference against which things may be compared”*. Collins dictionary defines benchmarking as, *“In business, benchmarking is a process in which a company compares its products and methods with those of the most successful companies in its field, in order to try to improve its own performance.”*

In fact benchmarking came out a necessity for land surveyors need to mark a fixed point of reference in order to measure distances in great expanse of land. It gained popularity in business in the 1970s when large corporates dominant in their particular sectors were facing competition from innovative foreign companies who were able to produce high quality products at the same cost as it took the local companies to manufacture them. Realising that incremental change would not be the solution they looked for breakthrough improvements. One of the first to take this step was Xerox who adopted a peer learning process called “benchmarking”. DT Kearns the then Chief Executive of Xerox defined benchmarking as, *“Benchmarking is the continuous process of measuring products, services and practices against the toughest competitors or those companies recognised as industry leaders”*.

Put differently and simply, *benchmarking is learning from others*. In the charity context, benchmarking is a process for measuring and improving performance. The key to benchmarking is measuring what matters.

## Types of benchmarking

There are three main types of benchmarking, internal, external and best in class.

Internal benchmarking is used when an organisation has set and proven best practices and it wants to measure itself or different segments of its operations against one another. It is also useful where there are no comparable external benchmarks. So for example, charities running helplines such as Samaritans or Citizens Advice may have internal benchmarks for call waiting times or charities running front line services such as St. John's ambulance or the RNLI may have internal benchmarks for response times.

External benchmarking is used when an organisation wants to evaluate and assess its performance against others within its own industry or sector. External benchmarking can either be formal or informal. Informal Benchmarking is an unstructured approach to learn from the experience of other organisations and therefore does not follow a defined process. Formal benchmarking is conducted systematically comparing the performance level of a specific process to identify opportunities for improvement and to set performance targets. So for example, a fundraising charity will benchmark its cold mailing or hot mailing rates against others doing the same. Comparisons with other organisations can lead to new thinking and new way of doing things. So for example, a charity may decide to use new technology for process expense claims after comparing its processes with peers.

Best in class benchmarking is used mostly when an organisation needs to go outside of its own industry to compare to benchmarks set by world class organisations. Going outside of its own sector or industry can be challenging for an organisation but some critical to quality measures are the same regardless of industry or sector. Furthermore best in class benchmarking provides the basis for continual improvement by gaining insights from other industries and sectors.

## Benchmarking process

### Phase 1: Planning phase

**Step 1: Identify objectives:** Decide what you want to benchmark and prioritise based on current knowledge and issues of high concern to stakeholders focusing on those areas critical to the achievement of the organisational plans and objectives. This step requires the involvement of top management who must decide which processes are critical to the success of the charity.

**Step 2: Select the comparison group:** The next step in the process is to decide which peers or best of class organisations to benchmark against. Consideration should be given to selecting organisations which are not direct peers as this helps provide necessary challenge and inspiration for improvement. Often for charities you will need to consider a number of diverse comparator organisations to benchmark against to capture the diversity of your own organisation's funding or activity streams.

**Step 3: Define key questions:** This is perhaps the most difficult and can be the most time consuming step but it is critical to select questions that support the objectives. It is important to clearly define the questions and to ensure that information required is available and comparable.

#### Key questions for the planning phase:

1. What are the key business processes or competitive positions or strategies which we need insight on?
2. Which have the greatest improvement potentials?
3. Which processes require the most essential improvements?
4. Can some processes be improved without benchmarking?
5. Have the critical success factors been identified?
6. Have clear metrics been identified for measurement?
7. Have comparable or best in class organisations been identified?
8. Do we understand the differentiators as well as the comparables between the organisations being benchmarked?
9. How easy is it to collect and interpret the data?
10. How easy will it be to make the necessary change in our organisation?  
Will there be resistance to change and what will be the cultural barriers?

### Phase 2: Collect and analyse the information

This phase is about collecting the data, establishing the gaps, identifying changes and targeting future goals.

### **Phase 3: Take Action**

In this phase findings are communicated to senior management and heads of departments to gain their views and respond to any issues which they raise but also so that they can understand and accept the changes. Once the improvements have been accepted then a detailed action plan needs to be drawn up with timelines for implementation and allocation of responsibilities. Progress should be regularly monitored.

The process should be continuous so that the completion of one improvement then leads to improvements in other activities and processes thus ensuring that the process is continuous.

#### **Key questions for the action phase:**

1. Have the key internal stakeholders been identified?
2. Have the findings been communicated to them?
3. Have we gained their views and addressed their issues?
4. Has the impact of the change been properly assessed?
5. Is there acceptance of the revised processes and the change?
6. Has the action been prioritised?
7. Is there an action plan with timelines and responsibilities?
8. Is there commitment to change from the leadership team?
9. Does everyone understand that the change is permanent?
10. Is there a process for continual monitoring?

## Benchmarking pitfalls

Benchmarking can be a powerful tool for improving the effectiveness and increasing the impact that a charity can make. However it has its limitations and can lead to justifying average performance or accepting mediocrity or stifling innovation rather than driving improvements.

The common pitfalls are:

- Setting unclear objectives – understand at the outset what you are interested in learning
- Using uninspiring comparison group – think outside the box. Often the most aspirational comparators are outside your immediate peer group.
- Lack of action – apply what you learn.

### Challenges of benchmarking for charities

1. *Mission driven ethos does not lend itself easily to performance measurement and benchmarking*

A challenge for charities beyond process measures is working out what their key measures of success are. The business owners or shareholders of for profit companies are primarily seeking profits and dividends and/or increased share price and use these traditional measures to evaluate the performance of companies they hold investments in. In contrast funders and donors to charities have a more diverse set of objectives and expectations and this presents a practical problem of the complexity of working out appropriate measures to track performance against a charity's mission. So working out how to quantify and measure what they do can be challenging.

2. *Inherent uniqueness of each individual non-profit makes meaningful comparisons difficult*

The diversity and individual uniqueness of charities often makes benchmarking them as a sector difficult. Not only is each organised around achieving its own particular strategic mission, there can also be diversity in how each raises its funds or plans to deliver its purpose. For example take two charities both operating internationally to reduce poverty. One receives all of its funds through grants and delivers its mission by working with local organisations. The other raises all its funds through voluntary contributions and delivers its mission by employing its own staff locally to work in the community and to advocate on behalf of the poor. Benchmarking these two international charities against one another would be meaningless as they are different in how they raise their funds and how they are structured to deliver their mission. There are exceptions of course such as benchmarking private charitable schools who in most cases raise their income by way of fees and who deliver education by employing teachers. Benchmarking this mostly homogenous sector is relatively easy.

3. *Culture of “just do it” rather than let’s analyse it*

People who work for and with charities are motivated by their sense of purpose and by the urgency of solving or alleviating a cause or delivering a service. This can lead to a “just do it culture” where there is no time or investment on planning or reflection. In fact in some cases staff can resist what they see as a profit enhancing technique into their mission related work.

4. *Benchmarking requires investment of time and money*

Benchmarking requires an investment of time and money and for resource constraint charities justifying this “diversion” of funds away from mission related activities can be difficult.



## Importance of the right management information

In the charity context, decisions are made by the board together with senior management to identify which strategic priorities to fund or which income generating activity to pursue.

Underpinning all of this is good management and executive information systems which support day to day decision making and help meet the information needs of the charity to make the right operational, tactical and strategic decisions.

Information management is key within any organisation to ensure that senior management and trustees have sufficient, appropriate and accurate information on which to base management decisions and evaluate performance. Failures within this process lead to the risk of inappropriate strategic decisions being made which reduce the impact for the charity's beneficiaries.

There is often an urge to collect data which takes time to collect, analyse and present when the value of this information may not have been fully determined. Equally, it is often difficult to make the call that certain information is no longer required by the charity and therefore to stop collecting it or change the focus of the analysis. Distinguish between information prepared for background knowledge and that which is required to monitor or make decisions. Sometimes trustees require information to help them understand the charity's processes or systems or to aid them with understanding other information presented to them. Whilst of benefit on a one-off or short term basis, it may not be appropriate to keep producing and presenting this information to the trustees.

Studies show that most organisations gather too much data on what they do not really need and do not have enough knowledge on what they do need to know. A well-defined set of key performance indicators (KPIs) can act as a compass for a charity in ensuring that it meets its strategic objectives. Furthermore it is important that the KPIs when defined are cascaded throughout the charity so that the strategy does not become fragmented and departments do not adopt their own version. Too often we see that there is one set of KPIs prepared for the board and another set for management. Apart from the obvious waste of resource this does mean that there is more than one version of the truth and the charity is being evaluated by different groups based on different criteria. The question that then arises is whether it is management or the trustees who are focusing on the wrong information and outcome measures.

There is also a tendency in organisations of focusing exclusively on financial or non-financial information. In any organisation, it is important to ensure that appropriate levels of both qualitative and quantitative data are used to direct the organisation. Both types have their place in assisting those in the leadership position making the right decisions. For example, more charities are now recognising that they need to look at complaints and comments by beneficiaries, stakeholders or members of the general public. Looking at the nature of the complaints or comments is as important as tracking how many have been received. Additionally focusing purely on data analysis (quantitative measures) is not as informative as benchmarking the results against other comparable data or other comparable charities.

## The external perspective

Whether we like it or not and whether a charity decides to benchmark itself or not, benchmarking happens to every charity. Furthermore, the current signs are that benchmarking will increase in the coming years. Government funders, donors and foundations all have performance measures to benchmark to establish which programme and charity they should be funding. The comparisons don't end at the funding stage they are also evident at the evaluation stage which then determines whether the charity will attract further future funding or not.

Unfortunately there is too much spurious external benchmarking which is without understanding of the issues or the context of the organisations or the sector being benchmarked. Most often external commentators use a charity's financial statements to extract financial information from without understanding the impact of financial reporting requirements on the results of a charity.

Examples of this include comparing fund raising costs or charitable expenditure in the financial statements and to the income raised. Income is often unpredictable and it is not practical to match expenditure in a way that would guarantee a spend percentage. A charity could receive a large donation or legacy in the last part of the year and may not spend it until future years. Some charities may be trying to build up reserves and therefore be budgeting for surpluses whilst others may be planning deficits to make investments for the future or to run down excessive reserves. Some charities operating model requires them to spend all the funds they receive as soon as they can, others have longer term projects and programmes that need to be funded in future years. The same charity can correctly have different approaches at different times.

Cost ratios are influenced by a number of factors and fundraising mix is an important one. For example, legacy fundraising has the lowest cost ratios whilst cost ratios for special event and dinners are usually much higher. However, some types of charities, such as medical charities, do better at raising legacies than others such as international aid charities and this has little to do with their fundraising skills or effectiveness. Therefore, some types of charity will have an inherent fundraising mix that predisposes to a lower fundraising cost ratio.

- Financial Reporting Standards do not usually allow fundraising costs to be carried forward and be matched against income and the reality is that with most forms of fundraising there is very little correlation between what the accounts report as fundraising costs in a year and the actual amount raised in a year. The most extreme example is a legacy campaign where the money is spent in one year and income comes in much later. Even direct mail campaigns show little correlation between reported income and expenditure. Cold mailings lead to poor cost ratios, even negative cost ratios, but they are still important as they generate new donors and ratios are improved in future years when considering the lifetime value of the donors.

The financial reporting date can also be significant. Consider fundraising where the donor signs up to pay a fixed amount per month. The mechanics can involve an upfront payment to an external fundraising company which can equate to several months' income. If this campaign is run within six months of the year end the costs charged will inevitably exceed the income recorded. The following year the accounts will show more income but no donor acquisition costs.

Similarly, some commentators and analysts attempt to build league tables comparing average staff costs - this can only be done by dividing the total staff costs in the accounts by the number of staff - but some charities include part time staff in their numbers and other don't - some include overseas staff - so any comparison is quite spurious. Some league tables try and make the public believe that high staff costs are indicative of waste. I am often called by journalists wanting a comment on a charity that "seems to be spending most of its income on paying its own staff". There is far more to consider as many charities employ their own staff to deliver mission critical services. Others may work with partner organisations that deliver the services. Some charity operations are labour intensive and some others say campaigning or grant making may require less staff. There are no easy comparisons.

Charity trustees and management must decide on what works for them considering good practice and should be able to explain what they have chosen to do and why they have chosen to do it.

## Reporting impact: Moving the conversation on

The Edelman Trust Barometer for 2018 and 2017 show that trust is in crisis around the world, with a decline in trust of all four key institutions being business, government, NGOs, and media. Various studies into the UK charitable sector also reveal falling public trust and confidence in the charity sector. Populus in its research for the Charity Commission states that “donor disillusionment appears to be rooted in more fundamental factors than the odd negative headline”.

It goes on to explain, “*Trust is fuelled by showing the public what charities achieve, the difference that they make in communities every day. Impact assessment, previously seen as a ‘nice to have’, or something that happened on big government programmes is going to be our greatest asset in the coming years.*”

*The charities that prosper in this new world will be the ones that can harness the new tools offered by social media to create a virtuous cycle which feeds back evidence of impact to the very supporters whose donations enable their work. This will make donors feel special, prove the link between donations and impact, and justify the way in which charities work. It is an ambitious goal but one worth pursuing.”*

All of this means that there is now greater demands for accountability and transparency. In recent years more charities have been focusing on measuring their impact but most have tended to shy away from it because of the issues with measurement of performance. As explained in the ICAEW insight report, <https://www.icaew.com/technical/audit-and-assurance/audit-insights/audit-insights-positive-impacts-in-challenging-times-for-charities>.

*“Charities need to be more pro-active in explaining the outputs, outcomes and impact of their work. The failure to provide this information is creating a deficit gap which is being filled with flawed commentary about cost and expenditure ratios and reinforcing confusion over performance. One way to address this is for charities to improve their engagement with stakeholders by being more open and discursive in their reporting. This includes information about their governance and their risk environment. It includes being honest about activities that are successful and are having a positive impact and the lessons learnt, and also about activities that are not working or new endeavours that have not been as successful as anticipated. More explaining and dialogue would reassure stakeholders that stewardship obligations are being properly observed and that charities are being managed well.”*





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## Start the conversation

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